As appeared in...

Daily Herald
The Business Resource for Suburban Chicago
BUSINESS LEDGER

JANUARY 2019

Time to cash in that stock from Grandma?

Do you have stock collecting dust that you were gifted years ago as a birthday or graduation gift? Did Grandma leave you a sizable stock portfolio in her estate plan?

Whether it's dusting off old stocks that may have appreciated or wading through ones from an inheritance, you should be aware of a few little-known 2019 tax advantages with a new tax law now in effect.

No tax on capital gains

One of the key advantages many people may miss when it comes to appreciated stocks is the zero percent tax on capital gains. If you're married and have $100,000 in total income including capital gain income, or single and have $50,000 in total income (including paychecks and investments like stocks), you pay no tax on capital gains.

Let's say you received stock as a graduation gift many years ago. For simplicity's sake, let's assume it was worth $1 when you received it. Now it's worth $20,000, and your income without the stock sale is $80,000. If you're married, you can sell the stock for $20,000 and pay no tax on the gain. The same goes if you have $75,000 in income, and own a stock that's now worth $25,000—as long as it all equals $100,000 or less in total annual income (or $50,000 or less if you're single), you don't have to pay tax on the gain.


DEAN HEDEKER

One of my clients had a Disney stock her mother obtained for her when she was a baby. We have a lot of clients who are gifted this stock—Disney has had a good run, so it's had a consistent gain over the years. When the kids aren't making much money (say, in high school or college), once the stock appreciated, they sold off the stock, meaning they didn't have to pay any tax on the gain because the kids' income was well below the $50,000/$100,000 income threshold.

Leveraging cost basis for greater tax savings

Another common scenario I see when it comes to gifted or inherited stocks is leveraging a cost-basis strategy to avoid paying tax on again. You can sell the stock for the amount it appreciated, then buy it right back (or, buy a different stock at the same price) with a new cost basis, and not have to pay tax on the gain.

For instance, let's say the stock received years ago has gained significantly in value, and you believe its value will increase even more. You can sell enough stock each year to stay below the $100,000/$50,000 threshold and buy it back immediately. So if your income without the stock sale is $75,000, you could each year sell off enough of the stock to produce a $25,000 gain. If you did this over a four-year period, you have effectively sold off a stock that has appreciated in value by $100,000, paid no tax on the gain while continuing to hold the stock.

What if my stock is worthless?

If you have a stock that's relatively worthless, sell it for $1 and deduct the loss from that investment so you can realize some tax savings even with a loss.

Don't pay more taxes than you have to in 2019—take advantage of these tax-saving strategies and you'll already have fulfilled your New Year's resolution to be in great financial shape.

** Dean Hedeker is owner and principal of Hedeker Wealth, hedekerwealth.com, in Lincolnshire. An attorney and Certified Public Accountant, Hedeker has more than 30 years of experience in estate and financial planning and wealth management. He can be reached at info@hedekerwealth.com.*