Golden Bullets

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MANAGING CAPITAL GAINS TAXES:

THINGS TO CONSIDER

Folks sometimes sell certain assets in order to reinvest in others. When one of our clients thinks about selling an investment, we discuss the tax consequences.

When assets are sold, gain or loss on the transaction is usually recognized for federal income tax purposes. Gain is measured by comparing the net proceeds the client receives against the client's **income tax basis**. The character of the tax result depends on the type of underlying asset.

Many of the financial investments in a client's portfolio will be capital assets. Gain on the sale of most capital assets is taxed at **capital gains rates**.

In general, federal income tax law favors a taxpayer's investment in capital assets as opposed to ordinary income assets. The tax preference shows up with capital gains tax rates that are **lower** than ordinary income rates.

Since helping our clients manage income results is an important part of our job, we do our best to educate people about how capital gains taxes work.

Like the federal income tax brackets, capital gains rates are graduated based on the amount of income and the amount of gain. Lower income clients with modest gains can avoid capital gains taxes entirely by taking advantage of the **zero percent bracket**. High income clients, on the other hand, may pay taxes on capital gains at **a rate as high as 23.8 percent**.

We help our clients think about the possible effects of capital gains taxes, and we help them manage the results. We consider the following strategies:

- Manage the timing of sales so that taxes are minimized due to **offsetting capital losses** or the effect of **low tax brackets**.

- Spread out the tax result associated with the sale of certain kinds of valuable assets—such as a closely-held business—through the use of **an installment sale**.

- Consider a tax-free **IRC Section 1031 exchange** when it is available.

- Evaluate the possibility of employing a **charitable remainder trust** to defer or potentially avoid capital gains taxes and to achieve other financial objectives.

Are you thinking about selling one or more of your investments? Do you have a friend who has a closely-held business or a commercial property on the market? The time to think about the tax consequences of the sale is before, rather than after. We can help.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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