Consider the Tax BEFORE You Sell

Multiple tax rates hold the key

In times of market volatility or when a financial need arises, it is only natural for dentists to consider selling some investments. Understanding the tax consequences is key to making an informed and planned decision. Here is what you need to know BEFORE you sell:

Investment Tax Rates

Investment	Tax Classification	Holding Period	Tax Rate	Comments
Retirement Accounts: 401(k), 403(b), traditional IRA, SEP IRA, SIMPLE IRA	Ordinary income (when funds are withdrawn from the account)	Determined by the account type (usually withdrawals after age 59 1/2)	0% up to 37%*	There is not a tax event when an investment is sold within your account. The tax rate depends on your annual income at time of fund withdrawal
Retirement Accounts: Roth IRA and Roth 401(k)	No tax on withdrawals	5 years and 59 1/2 years old or older	N/A	Earnings are not taxed as long as rules are followed
Short Term Capital Gains (STCG)	Ordinary income	1 year or less	0% up to 37%*	For investment sales such as stocks and bonds
Long-term Capital Gains (LTCG)	LTCG rates	More than 1 year	0% up to 20%	For investment sales such as stocks and bonds
Depreciation Recapture	Special	Any	25%	When you sell property that has been depreciated in prior years, part of your sale price may be taxed as a recapture of this prior period depreciation
Collectables	Special	Any	28%	A special tax rate applies to gains on the sale of items you collect (like coins and baseball cards)
Investment losses	Ordinary income	Any	Offset benefit: 0% up to 37%	Losses can offset ordinary income up to $3,000 each year

* a 3.8% net investment income tax may also apply to these earnings.

As the above tax rate chart suggests, understanding the tax consequence of selling an investment can be complicated. Your tax obligation could be subject to no tax or up to 37 percent plus an additional 3.8 percent for the net investment income tax, plus the applicable state and city income tax. Here are some ideas to consider:

Within retirement accounts

- **Generally not taxable.** Selling investments within your retirement accounts is not usually a taxable event. The potential tax event occurs when you take the funds out of your account either by a withdrawal or occasionally as a rollover into another account.
- **Follow the account rules.** Each of your retirement accounts has its own set of rules. If you follow them, you can avoid early withdrawal penalties. Following the holding period rules within Roth accounts can also make your withdrawals tax-free.

Gains and losses outside of retirement accounts

- **Losses.** Your losses are first used to offset any investment gains. Any excess losses can offset your ordinary income up to $3,000 per year. So the benefit of losses can be worth next to nothing or up to 37 percent if it offsets ordinary income.
- **Non-investment losses.** Unfortunately, individuals may not offset losses on the sale of non-investment property. So if you sell a car and make money, you need to report the gain. If you sell the car and lose money, there is no deductible loss unless it is part of a business transaction.
- **Long-term better than short-term.** Holding an investment for longer than one year is key if you want to minimize your tax obligation. Short-term gains are taxed the same as wages.

Remember your investment decisions can often have quite different tax consequences. The best suggestion is to seek advice BEFORE you sell.