

## More information about

# Managing your portfolio

Capital gains and losses: tax rates and other valuable information for investors

15% rate: applies to

/ Gains on the sale of capital assets

## Capital gains

The gain on a capital asset that is held greater than one year is a long term capital gain. If the asset is held for one year or less it will be a short term capital gain.

Exceptions to the 15% long term capital gain tax rate:

/ In 2009 and 2010 individuals in the 10% or 15% ordinary income tax brackets will have a long term capital gain tax rate of 0%.

There are three long term capital gain tax rates in effect through 2010.\*

Alternative minimum tax capital gains tax rates:

28% rate: applies to

/ The sale of collectibles (i.e. art, antiques)  
/ The sale of qualified small business stock (section 1202) if the stock was held for more than 5 years

/ The long term capital gain tax rates that are applicable for regular tax purposes are the same for alternative minimum tax purposes.

25% rate: applies to

/ Unrecaptured Section 1250 gain on the sale of depreciated property

Capital Gain Tax Rate Summary						
Capital gains tax rates 2009-10						
Holding period	Ordinary tax rate bracket					
	10%	15%	25%	28%	33%	35%
Capital gains						
Short-term <= 1 year	10%	15%	25%	28%	33%	35%
Long-term > 1 year	0%	0%	15%	15%	15%	15%
Unrecaptured section 1250 > 1 year	10%	15%	25%	25%	25%	25%
Collectibles > 1 year	10%	15%	25%	28%	28%	28%
Qualified section 1202** > 5 years	10%	15%	25%	28%	28%	28%

\* All rates are subject to change pending tax legislation to most likely occur in 2010.

\*\*50% of this gain is excluded from taxation.

## Capital losses

Capital Losses are netted against capital gains. Up to \$3,000 (\$1,500 if married filing separately) of excess capital losses are deductible against ordinary income each year.

Unused capital losses are carried forward indefinitely and may offset capital gains, plus up to \$3,000 (\$1,500 if married filing separately) of ordinary income during each subsequent year. Capital losses that are carried over retain their character as long term or short term.

## Capital gain and loss netting rules

When calculating capital gains income, keep in mind that the following ordering rules apply to netting capital gains and losses. The rules are fairly complicated, but they generally produce the lowest overall tax.

Netting rules for taxpayers with Short Term Capital Losses in the following order:

- / Reduce short term capital gains.
- / Reduce net long term capital gain taxed at 28%
- / Reduce net long term capital gain taxed at 25%
- / Reduce net long term capital gain taxed at 15% (or 0% if in the 10% or 15% ordinary income tax bracket)

Netting rules for tax payers with Long Term Capital Losses in the following order:

- / Net capital losses from the 28% rate assets reduce long term gains taxed at 25%, then long term gains taxed at 15%
- / Net capital losses from the 15% (or 0% if in the 10% or 15% ordinary income tax brackets) rate assets reduces long term gain taxed at 28%, and then reduces long term gain at 25%.

## Qualified dividends:

Dividends paid by most domestic and foreign corporations are eligible for the maximum capital gains tax rate of 15% (0% for taxpayers in the 10% or 15% tax

bracket). This treatment also applies for the Alternative Minimum Tax. Thus, qualified dividends are taxed at rates of 0% for taxpayers in the 10% or 15% tax bracket and at 15% for taxpayers in brackets above 15%. Dividends that are not qualified dividends are taxed at the ordinary income tax rate of the Taxpayer.

## Wash sale rule

If securities or mutual funds held have significantly declined in value and a recovery in price is not anticipated in the near future, consideration should be given to selling the securities or funds currently to take advantage of the loss. For investment reasons, there may be an ongoing desire to maintain a similar type of investment. The repurchase must be made carefully, however, so as not to immediately repurchase the same or substantially identical assets (the Internal Revenue Services uses this term to broaden the prohibited repurchase of securities and/or mutual funds that are not identical to what you had sold but are essentially the same). Tax wash sale rules prevent a taxpayer from recognizing the tax loss if the repurchase occurs within 30 days before or after the sale of the same, or a substantially identical, security.

If the wash sale rule is triggered, the resulting loss is suspended and added to the cost basis of the new securities purchased (the amount you pay for the security plus other acquisition costs, such as brokerage commissions). When the replacement security is sold, the suspended loss amount reduces the taxable gain or increases the taxable loss.

To avoid the wash sale rule, you must either avoid purchasing the same or substantially identical assets within the 61-day period, or by the same or substantially identical assets at least 31 days before or after the sale of the securities or mutual funds. The latter alternative involves substantial investment risk, as the market can move against the targeted strategy in the 31-day waiting period.