Ruboyianes
THE RUBOYIANES COMPANY PLLC

Reducing taxable income by selling losing investments

Making the most out of a bad situation

Definitions:

- **Realized Gain/Loss:** This is a gain or loss on the actual sale of an investment. This type of gain or loss does increase or decrease your taxable income.
- **Unrealized Gain/Loss:** This is the "on paper" gain or loss of an investment. The investment is owned but has not been sold yet. This type of gain or loss does not increase or decrease your taxable income.
- **Long Term Capital Gain:** The gain on selling an investment after holding it for more than one year. This type of gain is taxed at a maximum rate of 15%.
- **Short Term Capital Gain:** The gain on selling an investment that was held for less than one year. This type of gain is taxed at your regular tax rate, which can be as high as 35%.
- **Taxable Income:** The income level at which the individual(s) will be taxed.

In a down market like we have experienced over the past few years, you are bound to have investments that have decreased in value. By selling the investments before year end, you can use the **realized loss** to offset any **realized gains** that you may have incurred over the year. In addition, you can reduce your **taxable income** by up to $3,000.

Let's take a look at an example so that we can better understand this tax strategy.

Let's assume that it is December 29, 2009, you are in the 28% tax bracket, and you had sold some stocks earlier in the year. You had a modest $500.00 in **short-term gains**, and $1,000.00 in **long-term gains**. If the New Year were to come and go, without any tax planning, you would pay your regular tax rate on the **short-term gains** and 15% on the **long-term gains**.

Short Term Gains:	$ 500.00 x 28%	=	$145
Long Term Gains:	$1,000.00 x 15%	=	$150
Total Capital Gains	$1,500.00		
Total Tax Expense		=	$295

Now let's assume that you decided to sell some stocks that had decreased in value from where you had purchased them. You have been holding them and they just do not ever seem like they are going to increase to the price that you had originally purchased them at. By selling these stocks before the end of the year, you create a **capital loss** of $6,500.00.

This capital loss can be used to offset your $1,500.00 in capital gains. You have now saved yourself $295.00 in tax by eliminating your capital gains.

Total Capital Losses:	$ 6,500
Total Capital Gains:	$ 1,500
Remaining Capital Losses	$ 4,000

A person is allowed to use up to $3,000.00 of capital losses each year to reduce their ordinary taxable income. So now you can reduce your taxable income by $3,000.00.

This saves you an additional $840.00 in tax. ($3,000.00 x 28% tax rate = $840.00)

You have now saved a total of $1,135.00 in taxes. ($810.00 + $335.00 = $1,135.00)

After these transaction have occurred, you are left with $1,000 in capital losses to carry forward to the next year to reduce capital gains or ordinary income.

Remaining Capital Loss (from above)	$4,000
Reduction of Ordinary Income	$3,000
Remaining Capital Loss	$1,000

If this tax strategy is of interest to you or you are interested in any other tax planning strategies, please feel free to call The Ruboyianes Company.