Six Things To Know About Capital Gains Tax

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THE MOTLEY FOOL: 2014 Capital Gains Tax: 6 Things You Need to Know

There are three things they talk about below which is usually confused by people.

First, item 4 below pertains to what you get on your W2 or 1099's. Your capital gains do not increase that amount. So any person whose "earned" income for 2014 is under those limits will not pay the extra 3.8% tax on their capital gains.

Secondly, in item 3 he mentions your "tax bracket." To actually calculate your capital gains you need to know your tax bracket.

You can find that out here:

http://www.bankrate.com/finance/taxes/tax-brackets.aspx

Thirdly, after you know your bracket then this calculator will show you how much capital gains tax you will pay short or long term.here:

http://www.moneychimp.com/features/capgain.htm

Remember when calculating income, SSI and welfare are not considered "earned income”.

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http://www.fool.com/how-to-invest/personal-finance/taxes/2014/02/14/2014-capital-gains-tax-6-things-you-need-to-know.aspx

Everyone likes to earn a profit on their investments. But when you sell those winning investments, you'll usually have to pay tax on the resulting capital gains. Although the 2014 capital gains tax isn't changing dramatically from last year's tax structure, it's still more complicated than many people understand.

Here are some of the most important tips you should know in order to pay as little in 2014 capital gains tax as possible when you file your tax return next year.

1. For individual stocks and bonds, you don't owe capital-gains tax until you sell.

The best thing about the capital-gains tax is that you get to decide when you pay it. With individual stocks, capital-gains tax is triggered only when you sell, so if you hold on to your shares for the long run, you'll go for years or decades without owing any tax.

Unfortunately, that's not the case for mutual funds, as you can owe tax on capital-gains distributions even if you don't sell the shares. But with ETFs, the differences in the way they're structured tends to minimize or eliminate the tax hit, with both SPDR S&P 500 (NYSEMKT: SPY) and Vanguard Total Stock (NYSEMKT: VTI) incurring no capital-gains tax liability in 2013.

2. Short-term capital gains have the highest taxes.

Traders who do a lot of buying and selling in taxable accounts quickly find that capital gains taxes

represent a big hit to their profits. The rate on short-term capital gains is equal to your ordinary income tax rate, which ranges as high as 39.6% in 2014. Short-term treatment applies if you hold on to an investment for a year or less, so keep that in mind before you decide whether to sell.

3. Long-term capital gains rates get complicated.

Hold an asset for longer than a year, and you'll typically pay less in capital-gains taxes. But the 2014 capital-gains tax rates for long-term gains vary widely depending on your income and the type of gain.

For most long-term capital gains, those in the two lowest tax brackets pay no capital-gains tax at all. Those in higher brackets pay a maximum of 15%, except for those in the top bracket, who pay 20%.

But there are also special cases where higher maximum rates apply. If you've depreciated certain types of property, then you have to recapture some of that depreciation when you sell, and the resulting gains get taxed at 25%. Meanwhile, for sales of collectibles and small-business stock, a maximum of 28% applies.

For investors, the key to remember is that precious-metals bullion investments like gold and silver coins are treated as collectibles, as are the popular exchange-traded vehicles SPDR Gold Shares (NYSEMKT: GLD) and iShares Silver (NYSEMKT: SLV). Bear in mind, though, that you'll never pay more than your ordinary tax rate.

4. High income taxpayers get an extra hit.

Starting last year, a new 3.8% net investment income tax started to apply for high-income taxpayers. If you earn more than $200,000 for single filers or $250,000 for joint filers, then your capital gains—whether they're long term or short term—as well as other investment income will be subject to the extra 3.8% tax. That makes selling investments at a gain even more costly.

5. There's one way to avoid capital gains tax entirely—but there's a big catch.

An arcane provision of the tax laws helps many families not have to pay any capital gains tax, even on investments that have produced huge increases in value. The problem: You have to die in order to claim it.

When you die, your assets get what's called a step-up in basis. That has the effect of zeroing out all your capital gains and losses as of the date of your death. That's great news for your heirs, who get to sell the assets they inherit without the tax liability you would have incurred if you had sold. But obviously, it's not a planning technique that most people are anxious to use before they absolutely have to.

6. Don't want to pay 2014 capital gains tax? Use losses to offset gains.

One of the most popular tax strategies involves taking capital losses on your losing investments in order to offset the capital-gains tax you owe when you sell winning investments.

You'll pay tax on your net capital gains, after subtracting losses from profits on your investment positions. As a result, if you have big capital gains early in the year, it pays to look for investments where you can harvest tax losses to offset those gains and reduce your tax bill.

Be smart about your taxes

Having capital gains is always good, as it means you made a profit on your investments. By keeping these tips in mind, you can pay less in 2014 capital-gains tax and keep more of your hard-earned money away from the IRS.

Paying as little as possible in 2014 capital gains tax is just one way you can cut your overall tax bill next

year. But what about this year?

In our brand-new special report "How You Can Fight Back Against Higher Taxes," The Motley Fool's tax experts run through what to watch out for in doing your tax planning this year. With its concrete advice on how to cut taxes for decades to come