

Ten Important Facts About Capital Gains and Losses

Did you know that almost everything you own and use for personal or investment purposes is a capital asset? Capital assets include a home, household furnishings and stocks and bonds held in a personal account. When a capital asset is sold, the difference between the amount you paid for the asset and the amount you sold it for is a capital gain or capital loss.

Here are ten facts from the IRS about gains and losses and how they can affect your Federal income tax return.

1. Almost everything you own and use for personal purposes, pleasure or investment is a capital asset.
2. When you sell a capital asset, the difference between the amount you sell it for and your basis – which is usually what you paid for it – is a capital gain or a capital loss.
3. You must report all capital gains.
4. You may deduct capital losses only on investment property, not on property held for personal use.
5. Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.
6. If you have long-term gains in excess of your long-term losses, you have a net capital gain to the extent your net long-term capital gain is more than your net short-term capital loss, if any.
7. The tax rates that apply to net capital gain are generally lower than the tax rates that apply to other income. For 2010, the maximum capital gains rate for most people is 15%. For lower-income individuals, the rate may be 0% on some or all of the net capital gain. Special types of net capital gain can be taxed at 25% or 28%.
8. If your capital losses exceed your capital gains, the excess can be deducted on your tax return and used to reduce other income, such as wages, up to an annual limit of \$3,000, or \$1,500 if you are married filing separately.
9. If your total net capital loss is more than the yearly limit on capital loss deductions, you can carry over the unused part to the next year and treat it as if you incurred it in that next year.
10. Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040. For more information about reporting capital gains and losses, see the Schedule D instructions, Publication 550, Investment Income and Expenses or Publication 17, Your Federal Income Tax. All forms and publications are available at <http://www.irs.gov> or by calling 800-TAX-FORM (800-829-3676).