<u>**Capital Gains & Losses**</u>

A **capital gain** is the profit you make from the sale of an investment or an asset. A **capital loss** is the amount you lose during the sale of an investment or an asset. You need to report capital gain or loss if you sold stock, mutual funds, real estate, or collectibles or if you redeemed any retirement bonds or notes in the past year.

Other, less common sales that require the calculation of gain or loss, include:

  • profits from installment sales
  • home sales (there are exclusions for personal residences – see below)
  • like-in-kind sales
  • exchanges
  • commodity straddles
  • estates
  • trusts
  • any revenue made or lost from investments in S Corporations.
  • undistributed capital gains.

The tax basis of assets or investments

To determine whether or not the sale of your investment or asset resulted in a capital gain or a capital loss, we first need to figure its tax basis.

Most of the time determining the tax basis is simple, especially if you made the original purchase. However, things get a little more complicated if you're selling something you've inherited, received as a gift or if you're selling a house on which you've made improvements or a collectible that has depreciated in value over time.

Here is a guide to help you determine the tax basis of an asset or investment:

If you sell:	You need to know the asset's:	Its basis is:
Property you purchased	cost	its cost increased by improvements or decreased by depreciation
Property you received as a gift	• fair market value on date gift was made • original cost to the donor • any gift tax paid by the donor	whichever is less: the fair market value or the cost to the donor increased by any gift tax
Property you inherited	fair market value on date of death	the fair market value on the date of death
Property received for services	its value	the amount you paid taxes on as part of your income

If you are **selling securities** through a broker, the broker should be able to provide you with cost basis & gain or loss information.

The gain or loss calculation is dependent upon several factors:
  • the date you acquired the investment or asset
  • the date it was sold
  • the amount it was sold for
  • the tax basis
  • a description of the property

Reporting the sale of real estate
The profits from selling real estate are fully taxable as capital gain, unless the property sold qualifies as your primary residence.

In addition, the profits from selling your house are recorded if they exceed the maximum allowed capital gain for a primary residence.

This means that **generally,** the sale of your primary residence is not considered a capital gain, unless you make enough money on the sale to surpass the IRS "profit threshold".

If the sale of your house makes a profit that exceeds $250,000 for unmarried taxpayers or $500,000 for married taxpayers, then you must claim a portion of the profit as a capital gain.

Your profit is figured by taking the amount you sold the house for and reducing it by the cost of the sale and the cost of the house. These costs can include:

  • real estate commission
  • title closing costs
  • advertising costs
  • attorney fees
  • the original amount you paid for your house
  • closing costs & attorney fees at the time of your purchase
  • cost of any improvements you made to your house

If this amount, your profit, is over the maximum excludable amount you must claim capital gains.

Unfortunately, if you sold your house at a loss, you are not entitled to a deduction. You might, however, be able to deduct interest points that you paid in the past but did not claim.

Reporting the sale of depreciated business property

If, in previous years, you claimed depreciation on any of your sold business property, you must also make adjustments reflecting this.

This means that if you bought a computer for $2000, and subsequently claimed a deduction for $500 of depreciation, and then sold the computer for $1500, your new cost basis would be $1500, as you have already received a break on the $500 that the computer depreciated by.