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You May Be Able to Sell Profitable Stocks Without Paying Any Tax

Article Highlights:

- Capital Gains Rates
- Zero Tax Rate
- Wash Sale
- Tax Bracket Thresholds
- Loser Stocks

Taxpayers whose top marginal tax bracket is lower than 25% enjoy a long-term capital gain tax rate of zero. Yes, you read correctly: the tax on any long-term capital gains for taxpayers within the 10% or 15% tax bracket is zero! This can provide you with the opportunity to sell some of your winner stocks and pay no tax on the resulting gain. Long-term capital gains apply to stocks and other capital assets you have owned for a year and a day or longer.

Even if you want to hold on to the stock because it is performing well, you can sell it and immediately buy it back, allowing you to include the current accumulated gain in this year's return with no tax while also reducing the amount of taxable gain in the future. If you are concerned about the so-called wash sale rules that require a taxpayer to wait 60 days before buying back stock, don't be—the wash sale rules only apply to stocks sold at a loss.

To see if you can take advantage of this tax-saving strategy, you must determine if your taxable income without the potential sale is below the 25% tax bracket. The following table shows the point at which income becomes taxable at 25% for different filing statuses in 2017.

25% Tax Bracket Threshold for 2017

Filing Status	Single	Head of Household	Marrried Filing Jointly	Married Filing Separately
Taxable Income	$37,950	$50,800	$75,900	$37,950

***Example:** Suppose you are filing married joint and your taxable income for the year is projected to be $50,000. From the table above, we find that the 25% tax bracket threshold for you is $75,900. This means you could add $25,900 ($75,900 − $50,000) in long-term capital gains to your income and pay zero tax on the capital gains.*

Of course, this strategy must be worked out based upon your projected taxable income for the year, and your actual income could be more or less than the estimated amount, meaning that some of the gain may end up getting taxed if your income is greater than projected. Or if you overestimated your income, you will not have taken advantage of as much tax-free long-term capital gains as you might have been able to.

In addition, if you have any loser stocks, you can sell them for a loss, allowing you to bring in that much more zero-taxed long-term capital gains.

There are also somewhat rare situations where the increase in your adjusted gross income as a result of the added long-term capital gains could have unanticipated adverse effects on your taxes that could reduce the overall benefit of this strategy.

If you would like to take advantage of this strategy and need assistance in projecting your 2017 taxable income, checking for adverse effects of the strategy, and determining the approximate amount of long-term capital gains you can assimilate with zero tax, please give this office a call.

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