



**SOUTHERN  
CAPITAL**  
SERVICES, INC.

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## 10 Things You Should Know About Capital Gains

Source: Hartford Funds ©2021

**Selling stocks, bonds, or fund shares at a profit could have implications for your wallet beyond simply increasing its contents.**

**1 There are capital gains and capital-gains distributions.** If you sell an investment for more than its cost basis (its purchase price adjusted for dividends and distributions), that's a capital gain. Fund managers buy and sell holdings throughout the year and are legally required to pass profits from those sales on to shareholders—those are capital-gains distributions.

**2 Capital-gains distributions aren't a response to action on your part.** You can receive a capital-gains distributions from a fund you still own. Funds are required to distribute nearly all the capital gains they accrue at least once a year.

**3 You could see distributions even if your fund is in the red.** You can receive capital-gains distributions even if the fund you own posted negative returns for the year. This happens when a fund manager sell underlying shares for a profit even though the fund itself experienced a loss.

**4 The tax man won't cometh (in a retirement account).** Capital-gains distributions aren't taxable if they're from a fund you own in a tax-deferred account such as a 401(k), 403(b), or IRA — unless you make a withdrawal from those accounts instead of allowing them to be reinvested.

**5 A gift that could keep on giving.** In a tax-deferred account, if you reinvest your capital-gains distributions to purchase additional shares, it's not a taxable event.

**6 For non-retirement accounts, how much you owe Uncle Sam depends on length of ownership.** If an asset is sold within a year or less of its purchase, it's considered a short-term capital gain and is taxed at the same rate as your ordinary income. Investments sold after more than one year are considered long-term capital gains and are generally taxed at a lower rate than your ordinary income (see tables on back page).

**7 Dividends are different.** Dividends are a share of earnings paid to current shareholders, typically at regular intervals. If you own individual stocks, dividends may be paid directly from the company to you. If you own a fund, it could distribute dividends to you, too. Conversely, capital gains are only created when an asset is sold, either by you or by your fund manager.

**8 Look for IRS Forms 1099.** If you still own your investments, you'll likely receive a Form 1099-DIV. It lists all your dividend or capital-gains distributions for the previous tax year. If you sold an investment, Form 1099-B shows your capital gains (or capital losses if you

sell an investment for less than its cost basis).

**9 If you win some but lose more, it changes the situation.** In taxable accounts, if all your capital losses are greater than your capital gains after netting them out on Form 1099-B, it could negate your tax liability. You may also be able to deduct up to \$3,000 of your losses on your tax return each year if they exceed your

gains, and you can carry those losses forward in future years.

**10 Some funds distribute more than others.** Exchange-traded funds (ETFs), for example, tend to have relatively low turnover (e.g. they buy and sell securities less frequently), so they may have lower capital-gains distributions than many other investments.

## TAX RATES FOR LONG-TERM CAPITAL GAINS VARY BY INCOME LEVEL

### 2021 Capital Gains Tax Brackets

#### Single Filers

Income Level	Tax Rate
<\$40,400	0%
Between \$40,400 and \$445,850	15%
\$445,850	20%

#### Married Filing Jointly

Income Level	Tax Rate
<\$80,800	0%
Between \$80,800 and \$501,600	15%
>\$501,600	20%

#### Head of Household

Income Level	Tax Rate
\$54,100	0%
Between \$54,100 and \$473,750	15%
>\$473,750	20%

Data sources: TaxFoundation.org and IRS, as of 11/20

## FROM IRS.GOV

### Here are 10 facts that taxpayers should know about capital gains and losses:

- 1. Capital Assets.** Capital assets include property such as a home or a car. It also includes investment property, like stocks and bonds.
- 2. Gains and Losses.** A capital gain or loss is the difference between the basis and the amount the seller gets when they sell an asset. The basis is usually what the seller paid for the asset. For details about inherited property, see IRS [Publication 544](#), [Publication 550](#) and [Pub 551](#).
- 3. Net Investment Income Tax.** Taxpayers must include all capital gains in their income. Capital gains may be subject to the [Net Investment Income Tax](#) if the taxpayer's income is above certain amounts. The rate of this tax is 3.8 percent. For details, visit IRS.gov.
- 4. Deductible Losses.** Taxpayers can deduct capital losses on the sale of investment property but can't deduct losses on the sale of property they hold for personal use.
- 5. Limit on Losses.** If a taxpayer's capital losses are more than their capital gains, they can deduct the difference as a loss on their tax return. This loss is limited to \$3,000 per year, or \$1,500 if married and filing a separate return.
- 6. Carryover Losses.** If a taxpayer's total net capital loss is more than the limit they can deduct, they can carry it over to next year's tax return.
- 7. Long and Short Term.** Capital gains and losses are either long-term or short-term. It depends on how long the taxpayer holds the property. If the taxpayer holds it for one year or less, the gain or loss is short-term.
- 8. Net Capital Gain.** If a taxpayer's long-term gains are more than their long-term losses, the difference between the two is a net long-term capital gain. If the net long-term capital gain is more than the net short-term capital loss, the taxpayer has a net capital gain.
- 9. Tax Rate.** The tax rate on a net capital gain usually depends on the taxpayer's income. The maximum tax rate on a net capital gain is 20 percent. However, for most taxpayers a zero or 15 percent rate will apply. A 25 or 28 percent tax rate can also apply to certain types of net capital gain.
- 10. Forms to File.** Taxpayers often will need to file [Form 8949, Sales and Other Dispositions of Capital Assets](#). Taxpayers also need to file [Schedule D, Capital Gains and Losses](#), with their tax return.

For more on this topic, see [Schedule D instructions](#). [irs.gov](#)

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