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FOR IMMEDIATE RELEASE
Monday, Nov. 21, 2016

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Answers to Your Questions on Capital Gains and Losses

Did you know that when you sell an asset you may have to pay taxes on the proceeds? Knowing the rules on capital gains and losses can help you make decisions about whether it makes sense to sell. The Tennessee Society of CPAs offers answers to some key questions.

What Gains Are Taxable?

You may have taxable gains when you sell a capital asset, which can include your home, car or other property, as well as investments like stocks and bonds. The capital gain is the difference between your basis, which is usually the purchase price you paid for the asset, and the sale price. The cost of improvements made may increase your basis in the property. In a simple example, if you paid $200,000 for your home and added on a bedroom that cost you $25,000, $225,000 would be your basis. If you later sell the house for $500,000, the $275,000 difference between your basis and the sale price is your capital gain. (Most settlement fees and closing costs can also be added to your basis and most selling expenses can also be subtracted from your sale price, so consult your CPA for all the details of determining your gain.) The basic rules are similar for other kinds of personal property. If you bought an antique chair for $1,000 and later sold it for $1,500, your taxable capital gain is $500.

Is There a Break When I Sell My House?

The good news is that you get a large tax break on capital gains associated with the sale of your home. In fact, profits of up to $250,000 for a single filer and up to $500,000 for a married couple filing jointly are tax free. Anything above those amounts must be reported on your income tax return as a capital gain. You can use the proceeds however you like, and the exclusion is generally available every time you sell a home, as long as you owned the home and used it as your main home during at least two of the last five years before the sale. There are a different set of rules for second homes and real estate investment property, so ask your CPA for more details.

What about Gains and Losses on Investments?

Your gains on assets you've owned for one year or less are considered short-term gains and are taxed at your ordinary income rate, which can range from 10 percent to 39.6 percent. Gains on anything you've held longer than a year are long-term gains, and are taxed at the capital gains rate for your bracket. For most people, that means their long-term capital gains will be taxed at 15 percent. If you've had losses on assets, they can be applied against your gains. Let's say that you've sold a portfolio of stocks and bonds. Some went up in value a total of $500 above your basis, but others went down in value by a total of $700 below your basis. In that case, you can deduct your net $200 capital loss. There is a $3,000 limit on losses you deduct in any tax year, but you can carry over the excess amount to following years. And remember that you can't deduct capital losses on personal-use property, such as your home or car.

Your CPA Has the Answers

Each situation is unique, so please contact your local CPA with any questions you have on capital gains and losses. He or she can offer advice on all your financial concerns.

About Money Management

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit *www.tscpa.com*. TSCPA is headquartered in Brentwood, Tenn.