

Schmidt quoted by writer for Forbes Magazine regarding Capital Gains Taxes

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How To Sell Stocks For A Profit, Pay No Capital Gains Tax

It sounds too good to be true: Sell stocks for a profit and your capital gains tax rate is zero percent. But the zero percent capital gains tax rate President George W. Bush pushed through in 2003 that took effect in 2008 is still alive and well—through year-end 2012.

“If anybody has procrastinated over the last few years, this is really their last chance,” says Lynn Schmidt, an enrolled agent in Winter Haven, Fla. At the end of 2010 when Congress extended the Bush tax cuts for another two years, the three-year “temporary” provision allowing the zero percent rate was extended too, opening up a two-year extension window. On Jan. 1, 2013, the Bush tax cuts expire, and the zero percent capital gains tax rate will be no more (the new rates will range from 10% to 23.8% under current law). So in anticipation of next year’s filing season, Schmidt is advising clients to look at whether it makes sense for them or a family member to sell stocks this year, and then reap the zero percent rate on their 2012 return.

Who can get this freebie? Taxpayers whose income is low enough to keep them in the 10% or 15% ordinary income tax bracket (that’s income after all exemptions and deductions). The zero percent rate applies to stocks held for a year or more and to dividends. Lower-income folks, young adults, retirees are prime candidates. Even taxpayers who have historically had too much income to qualify might if they are between jobs, recently retired, or have higher-than normal itemized deductions. And rich parents who have socked money away in taxable accounts for their kids can get the break—up to certain limits.

Schmidt helped one client, a recently retired New Yorker, snag the zero percent rate on the sale of \$77,000 worth of stocks she was repositioning in 2010. She had almost \$32,000 of gain but a net gain of \$14,000 after losses. Her high itemized deductions (real estate taxes) helped keep her income down. That was important because of how the formula works for claiming the zero percent capital gains rate.

The zero percent rate applies to the amount of long-term capital gain and dividend income needed to “fill up” the 15% bracket, explains tax lawyer [Kaye Thomas](#), author of *Capital Gains, Minimal Taxes*.

For example, if your ordinary income is \$4,000 below the figure that would put you in the 25% bracket and you have a \$10,000 long-term capital gain, you’ll pay zero percent on \$4,000 of your capital gain and 15% on the rest. For 2011, the 25% bracket starts at \$69,000 for a couple filing jointly and at \$34,500 for a single. For 2012, it starts at \$70,700 for a couple and \$35,350 for a single.

How can you keep your income down? If you’re still working, contribute to your 401(k) at work (you can stash away \$17,000 a year; \$22,500 if you’re 50 or older) or an individual retirement account (you can contribute \$5,000 a year; \$6,000 if you’re 50 or older). If you’re already retired and don’t have to draw down your retirement accounts yet, it might make sense to delay distributions and live instead on capital gains realized from your taxable accounts—“taxed” at zero percent.

What about those rich kids? Adult children who are out of college but not earning much may be able to take the break. Well-off parents or grandparents can give these 20-somethings appreciated stock and the kids can sell at the zero percent rate, instead of the parents’ or grandparents’ 15% rate. Note: Each individual can give \$13,000 a year (cash or stock) to each child. With younger kids who already have a taxable custodial account sitting on mutual funds with built-in gains, they could sell whatever amount produces \$1,900 gain and the zero percent rate would apply, Thomas says. (The kiddie tax sets the \$1,900 threshold—any unearned income over \$1,900 is taxed at the parents’ rate—for kids up to 24 if they’re full-time students).