Long-Term Capital Gains/Losses Harvester

10/19/2022

Long-term capital gains(losses) occur when an investment has been owned for a year or longer. If the investment has been held for less than a year, that qualifies as a short-term capital gain (loss).

Typically, long term gains and qualified dividends are taxed at a lower rate than ordinary income. The capital gains rate that is applied is based on the Adjusted Gross Income and filing status. For example, in 2021, for Single filers, those who earn less than $40,400 (Joint $80,800) will have a capital gains rate of 0%. Income earned above this threshold, but less than $445,850 (Joint $501,600) , will have a 15% capital gains rate. Above $445,850 (Joint $501,600), the capital gains rate is 20%.

Long-term capital losses occur when an investment has been sold at a loss rather than a profit. This is determined by the cost basis of the asset, and the value of the asset at time of the sale. The loss can offset ordinary income up to $3,000, and the balance of the loss can be carried forward to other tax years, for which you can also take up to $3,000 offset.

Its ideal to harvest your assets under different scenarios:

1. You could harvest the assets when you know your capital gains tax rate will be lower in one year than in another. For example, if your capital gains tax rate is 0% in a given year, its ideal to realize the capital gains just short of the point that the AGI limits would force a higher capital gains rate. Be aware, that the Capital Gains realized will raise the AGI, which could make other deductions less deductible.
   In addition, some filers may want to avoid the Net Investment Income Tax (NIIT). This tax (§1411) is 3.8% of the lesser of (a) net income from things like capital gains or (b) the amount by which your modified adjusted gross income exceeds $200,000 for single filers ($250,000 joint).
2. You could harvest the assets to realize capital losses, so that you can carry forward losses to offset ordinary income in future years. After the investment has been sold for a loss, sawy investors buy a similar, but not identical invesment, thirty days later ("wash sale rule").

Assumptions

Asset Name:	Brentmark Shares
Asset Balance on 12/31/2022:	$40,000
Asset Basis:	$10,000
Inflation Rate:	2.00%
Method:	AGI Method

Year	Adjusted Gross Income	Filing Status	Asset Growth
2022	$150,000	Single	
2023	$200,000	Single	6.39%
2024	$205,000	Single	6.39%
2025	$210,000	Single	6.39%

Long-Term Capital Gains/Losses Harvester: Summary

Capital Gain Harvest	
Highest Rate of Return:	20.14%
Year Tab:	1
Year of Highest Rate of Return:	2023
Increase in Net Proceeds:	$906.51
"No Harvest" Net Proceeds in Optimal Year:	$36,435
Harvested Net Proceeds in Highest Year:	$37,342
Capital Loss Harvest	
There is no projected capital loss to harvest.	

Long-Term Capital Gains Harvester: Assume No Harvest

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	2022	2023	2024
Begin Balance:		$40,000	$42,556
Growth Rate:		6.39%	6.39%
Growth:		$2,556	$2,719
End Balance:	$40,000	$42,556	$45,275
No Harvesting, and then "IF" Realized in a Later Year			
Basis:	$10,000	$10,000	$10,000
Capital Gain:	$0	$32,556	$35,275
AGI Entered:	$150,000	$200,000	$205,000
Total Income:	$150,000	$232,556	$240,275
Capital Gain Rate:	15.00%	15.00%	15.00%
Capital Gains Tax:	$0	$4,883	$5,291
§1411 Taxable Amt:	$0	$32,556	$35,275
§1411 Tax Rate:	0.00%	3.80%	3.80%
§1411 Tax:	$0	$1,237	$1,340
Net Proceeds:	$40,000	$36,435	$38,644

- This illustration assumes no targeted year for a harvest.
- The current year is illustrated, and then a "what if" scenario appears each year after. The "what-if" year results are shown to illustrate what happens if you do nothing in prior years, and then realize the the capital gain/loss in a particular year.
- In subsequent illustrations, where a targeted year is used to illustrate the capital gains/losses realized, each year that follows will also assume a "what-if" assumption that no realization was made after the target year realization.

Long-Term Capital Gains Harvester: Harvest in Year 1

10/19/2022

	2022	2023	2024
Begin Balance:		$35,500	$37,768
Growth Rate:		6.39%	6.39%
Growth:		$2,268	$2,413
End Balance:	$35,500	$37,768	$40,182
Harvested in Year 1, and then "IF" Realized in a Later Year			
Basis:	$10,000	$35,500	$35,500
Capital Gain:	$30,000	$2,268	$4,682
AGI Entered:	$150,000	$200,000	$205,000
Total Income:	$180,000	$202,268	$209,682
Capital Gain Rate:	15.00%	15.00%	15.00%
Capital Gains Tax:	$4,500	$340	$702
§1411 Taxable Amt:	$0	$2,268	$4,682
§1411 Tax Rate:	0.00%	3.80%	3.80%
§1411 Tax:	$0	$86	$178
Net Proceeds:	$35,500	$37,342	$39,302
"No Harvest" Net:	$40,000	$36,435	$38,644
Net Proceeds Difference:	N/A	$907	$658
Rate of Return:		20.14%	14.62%


Rate of Return
20.00%
19.50%
19.00%
18.50%
18.00%
17.50%
17.00%
16.50%
16.00%
15.50%
15.00%
2023
2024

Long-Term Capital Gains Harvester: Harvest in Year 2

10/19/2022

	2022	2023	2024
Begin Balance:		$40,000	$36,435
Growth Rate:		6.39%	6.39%
Growth:		$2,556	$2,328
End Balance:	$40,000	$36,435	$38,764
Harvested in Year 2, and then "IF" Realized in a Later Year			
Basis:	$10,000	$10,000	$36,435
Capital Gain:	$0	$32,556	$2,328
AGI Entered:	$150,000	$200,000	$205,000
Total Income:	$0	$232,556	$207,328
Capital Gain Rate:	15.00%	15.00%	15.00%
Capital Gains Tax:	$0	$4,883	$349
§1411 Taxable Amt:	$0	$32,556	$2,328
§1411 Tax Rate:	0.00%	3.80%	3.80%
§1411 Tax:	$0	$1,237	$88
Net Proceeds:	$40,000	$36,435	$38,326
"No Harvest" Net:	$40,000	$36,435	$38,644
Net Proceeds Difference:	N/A	N/A	-$318
Rate of Return:			-6.50%

Long Term Capital Gains Harvester

Certain types of assets can achieve a tax benefit from realizing capital gains or losses in a specific year. Knowing when to realize capital gains and losses can reduce the overall taxes that are paid, increase the rate of returns, and in some cases, allow you to enjoy tax-free gains.

A working knowledge of how taxation applies to capital gains/losses is needed. In addition, its important to be able to estimate the taxable income in projected years. In order to Harvest Capital Gains, its important to analyze the years where it would make sense to realize a capital gain or loss to when its most beneficial. Such situations could be when the taxable income falls below a capital gains threshold from one year to the next.

Every situation is different, and harvesting may not make sense when several things are considered. If the person has very large capital gains, this will likely move the tax payer to a different bracket. In addition, the capital gains increase the adjusted gross income, and its possible that certain tax deductions become less deductible (such as medical expenses). In addition, the increase in adjusted gross income could make Social Security benefits taxable. Lastly, state specific income taxes often have different rules in regards to capital gains, and its possible to incur a state capital gains tax greater than the federal calculation.