

Wright Ford Young & Co.

Certified Public Accountants and Consultants, Inc.

YEAR-END INDIVIDUAL TAX PLANNING: HARVESTING CAPITAL GAINS AND LOSSES

Dear Clients and Friends:

Year-end is a good time to engage in tax planning by carefully structuring your capital gains and losses which can result in significant tax savings. This tax planning strategy is sometimes referred to as "harvesting capital gains and losses".

Let's consider a situation where you have realized capital losses to date in 2011 and a situation where you have realized capital gains to date in 2011.

First, suppose you lost money in the stock market in 2011 and have other investment assets that have appreciated in value. You should consider the extent to which you should sell appreciated assets (if you think their value has peaked) and thereby offset the gains on these assets with the losses that you realized earlier in the year.

Long-term capital losses offset long-term capital gains before they offset short-term capital gains. Similarly, short-term capital losses offset short-term capital gains before they offset long-term capital gains. Remember you may use up to \$3,000 of total capital losses in excess of total capital gains as a deduction against ordinary income in computing your adjusted gross income or AGI each year.

Individuals are subject to tax at a rate as high as 35% on short-term capital gains and ordinary income. But long-term capital gains generally are taxed at a maximum rate of 15%. This means that you should try to avoid having long-term capital losses offset long-term capital gains since those losses will be more valuable if they are used to offset short-term capital gains or up to \$3,000 per year of ordinary income. To do this requires making sure that the long-term capital losses are not taken in the same year as the long-term capital gains are taken.

In addition to the tax implications, you also need to consider investment factors. You wouldn't want to defer recognizing gain until the following year if there's too much risk that the property's value will decline before it can be sold. Similarly, you wouldn't want to risk increasing a loss on property that you expect will continue to decline in value by deferring its sale until the following year.

To the extent that taking long-term capital losses in a different year than long-term capital gains is consistent with good investment planning, you should take steps to prevent those losses from offsetting those gains.

If you have yet to realize net capital losses for 2011, but expect to realize net capital losses in 2012 well in excess of the \$3,000 ceiling, you should consider shifting some of the excess losses into 2011. That way the losses can offset 2011 gains and up to \$3,000 of any excess loss will become deductible against ordinary income in 2011.

On the other hand, you may have capital gains to date in 2011. You can use this same tax strategy to offset these gains by "harvesting" capital losses to a certain extent. For example, suppose you have \$10,000 of capital gains from the sale of stocks earlier this year. You also have several losing positions, including shares in ABC Corp. The ABC shares currently show a loss of \$15,000. Strictly from the tax viewpoint, you should consider selling enough of your ABC shares to recognize a \$13,000 loss. Your capital gains will be offset entirely, and you will have a \$3,000 loss to offset against a like amount of ordinary income.

As we have shown above, careful handling of your capital gains and losses can save you a substantial amount in income taxes. Please contact our office so that we can help you maximize your tax savings from this and other year-end planning strategies.

Very Truly Yours,

Wright Ford Young & Co.,

Certified Public Accountants and Consultants, Inc.

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