

Capital Gains and Losses Primer

Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. When you sell a capital asset, the difference between the amounts you sell it for and your basis, which is usually what you paid for it, is a capital gain or a capital loss. While you must report all capital gains, you may deduct only capital losses on investment property, not personal property.

Here are a few tax facts about capital gains and losses:

- Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040.
- Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.
- Net capital gain is the amount by which your net long-term capital gain is more than your net short-term capital loss.
- The tax rates that apply to net capital gain are generally lower than the tax rates that apply to other income and are called the maximum capital gains rates. For 2005, the maximum capital gains rates are 5%, 15%, 25% or 28%.
- If your capital losses exceed your capital gains, the excess is subtracted from other income on your tax return, up to an annual limit of \$3,000 (\$1,500 if you are married filing separately).

For more information about reporting capital gains and losses, get Publication 17, Your Federal Income Tax, and Publication 550, Investment Income and Expenses, available on the IRS Web site at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).