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What you should know about capital gains and losses

Synopsis - This article offers facts about capital gains and losses, discussing concepts such as long- vs. short-term losses, carryover losses, deductible losses, net capital gain, and more.

Full Article - When you sell a capital asset, the sale results in a capital gain or loss. A capital asset includes most property you own for personal use (such as your home or car) or own as an investment (such as stocks and bonds). Here are some facts that you should know about capital gains and losses:

- ***Gains and losses*.** A capital gain or loss is the difference between your *basis* and the amount you get when you sell an asset. Your basis is usually what you paid for the asset.
- ***Net investment income tax (NIIT)*.** You must include all capital gains in your income, and you may be subject to the NIIT. The NIIT applies to certain net investment income of individuals who have income above statutory threshold amounts — $200,000 if you are unmarried, $250,000 if you are a married joint-filer, or $125,000 if you use married filing separate status. This tax rate is 3.8%.
- ***Deductible losses*.** You can deduct capital losses on the sale of investment property. You cannot deduct losses on the sale of property that you hold for personal use.
- ***Long- and short-term*.** Capital gains and losses are either long-term or short-term, depending on how long you held the property. If you held the property for more than one year, your gain or loss is long-term. If you held it one year or less, the gain or loss is short-term.
- ***Net capital gain*.** If your long-term gains are more than your long-term losses, the difference between the two is a net long-term capital gain. If your net long-term capital gain is more than your net short-term capital loss, you have a net capital gain.
- ***Tax rate*.** The capital gains tax rate, which applies to long-term capital gains, usually depends on your taxable income. For 2015, the capital gains rate is **zero** to the extent your taxable income (including long-term capital gains) does not exceed $74,900 for married joint-filing couples ($37,450 for singles). The maximum capital gains rate of **20%** applies if your taxable income (including long-term capital gains) is $464,850 or more for married joint-filing couples ($413,200 for singles); otherwise a **15%** rate applies. However, a **25%** or **28%** tax rate can also apply to certain types of long-term capital gains. Short-term capital gains are taxed at ordinary income tax rates.
- ***Limit on losses*.** If your capital losses are more than your capital gains, you can deduct the difference as a loss on your tax return. This loss is limited to $3,000 per year, or $1,500 if you are married and file a separate return.
- ***Carryover losses*.** If your total net capital loss is more than the limit you can deduct, you can carry over the losses you were not able to deduct to next year's tax return. You will treat those losses as if they happened in that next year. Also, carryover losses can be used to offset future capital gains.

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