

Capital Gains and Losses

By: Dennis Kamensky, tax accountant and real estate consultant (c) - All Rights reserved

For most taxpayers, the purchase of stocks, bonds, and real estate is considered a capital investment. When the asset is sold and has been owned for a least one year and a day (long-term), it is treated very differently for tax purposes than most other types of income. Here's how it works.

1. You purchase a stock for \$25,000, hold it for over a year and sell it for \$525,000. You've made a net profit (long-term capital gain of \$500,000). For tax purposes that \$500,000 gain is taxed at a maximum rate of 15%. Therefore you would pay \$75,000 in federal income taxes on the gain.
2. You purchase a stock for \$525,000, hold it for over a year and sell it for \$25,000. You've made a net loss of \$500,000 (long-term capital loss). For tax purposes you can only deduct \$3,000 on this year's tax return and have to "carryover" the remaining \$497,000 loss to future tax years. Without any future capital gains it would take you 167 years to take the full \$500,000 deduction. (Actually for capital losses it doesn't matter whether it was short or long-term.)

THEREFORE YOU NEED CAPITAL GAINS!

3. You invest in a \$2,500,000 residential multi-unit real estate project (putting \$700,000 down). You keep the property for 2 years and sell it for \$2,800,000. The real estate investment is sold and you have a net profit of \$300,000.

For tax purposes the actual result would be:

A \$300,000 capital gain, plus a \$145,440 gain on the "recapture of depreciation," making a total capital gain for tax purposes of \$445,440. It would be taxed as follows:

A) The \$300,000 long-term capital gain @ 15% = \$45,000, plus B) The recapture of depreciation amount of \$145,440 @ 25% = \$36,360
Therefore a total federal tax bill of \$81,360... BUT WAIT! You're the same person who lost \$500,000 in the stock market. You now can use the remaining amount from the \$500,000 loss to offset the \$445,440 capital gain on the real estate investment.

Dennis Kamesnky will be one of the featured speakers at East Bay Wealth Builders [Wealth Building Conference](#) on Saturday May 21, 2005 at the San Ramon Marriott from 9 am to 4 pm. Dennis has over 30 years experience as a tax accountant and real estate consultant. He is a managing partner of the real estate investment fund [SVC Partners](#). He is directly involved in purchasing

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