7 Common and Costly Capital Gains Mistakes

1. Selling Before the One-Year Mark

Any asset you have held for longer than a year is considered a long-term investment and is taxed at the capital gains tax rate. Because of the difference in tax rates, selling before the one-year mark will cost you at least 15%. Unless you are getting a great deal, you should wait to sell until you can take advantage of the lower long-term investment rates.

2. Not Taking Advantage of Capital Losses

The federal government allows investors to offset up to $3,000 yearly in capital gains losses. This means that if you have an underperforming stock, you can sell it at a loss and use that loss to offset some of your capital gains and reduce your tax liability.

3. Donating Cash Instead of Stock

If charitable giving is important to you, don't make the mistake of selling an asset and then donating the cash to charity. You'll be stuck paying capital gains taxes on your profit before you donate. Instead, donate the appreciated stock or asset directly. You can avoid the capital gains tax on that appreciated asset AND get a charitable contribution tax deduction.

4. Holding a Bad Investment Just to Avoid Capital Gains Taxes

Good investing is more important than avoiding taxes. If you have a stock you no longer believe in, don't hang onto it just to avoid taxes. You have to take a big-picture view of your investments to get the most out of your returns. A capital gains tax consultant can help you determine when it is worth hanging onto an asset and when to cut your losses and sell.

5. Overlooking State Tax Planning

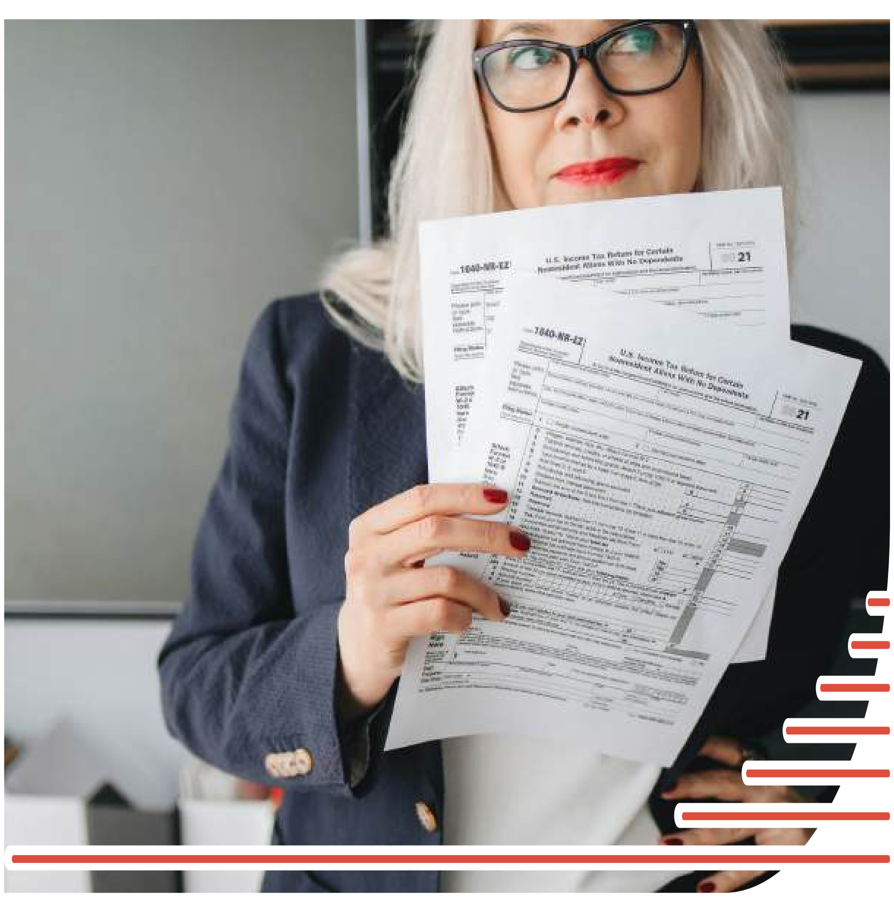
Don't forget to consider the state capital gains taxes you might owe when you are doing your tax planning. Not every state has capital gains taxes, but capital gains rates can almost double your tax liability in other states. State taxes must be an integral part of your overall tax strategy.

6. Failing to Harvest Gains

Timing is key in long-term tax planning. Paying taxes now at a lower rate can help you avoid higher rates later. For example, selling an appreciated asset while in a lower tax bracket could mean paying 0% or 15% instead of 20% in the future. Failing to harvest gains when you are in a lower-income tax bracket can cost you more in taxes in the long run.

7. Not Using a Tax Professional

If you are exiting a business, preparing to retire, selling appreciated real estate, or planning your estate, a tax professional can save you thousands of dollars. A capital gains tax advisor has the experience, knowledge, tools, and resources to implement wealth management strategies.to create a long-term capital gains tax strategy.



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