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Take Profits Without Paying Taxes

Your clients can realize capital gains and still avoid capital gains taxes.

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Many of your clients currently have an enviable problem: assets that have appreciated greatly over the last several months or years. But if those

investments are held outside of tax-sheltered accounts, reaping the benefits of that appreciation can trigger an unwanted capital gains tax.

Here are some ways that clients can feast on their profits without forking it over to Uncle Sam.

A Capital Gains Tax Primer

Gains realized on investment assets held outside of tax-sheltered accounts and owned for less than a year are generally added on to the owner's taxable income, and taxed at the corresponding income tax rate.

But profits on investments held for more than a year can qualify as "long term," and if sold, are taxed at zero percent if the seller's taxable income is below the 25 percent federal income tax bracket. FOR couples this is $ 75,900 FOR single filers $37,950.

If the seller's taxable income is above the 25 percent bracket but below the 39.6 percent bracket, the long-term federal capital gains tax rate is 15 percent. Once the seller's taxable income exceeds the 39.6 percent rate floor, then the long-term capital gains tax rate is 20 percent.

Clients' federal tax brackets are determined by the figure on Line 43 of the 1040 tax form, and for 2017 the top of the 15 percent (and bottom of the 25 percent) federal bracket is at $75,900 for married couples filing jointly, and $37,950 for singles. The 39.6 percent rate kicks in when the clients' taxable income passes $470,700 for married couples filing jointly, and $418,400 for single filers.

Keep Income Low

Obviously the best way to eliminate capital gains tax is to keep the clients'

taxable income below the top of the 15 percent federal income tax bracket.

You can get an idea how much in gains they may be able to reap without going over the limits by using TurboTax's "TaxCaster" at turbotax.com.

Keep in mind that realized capital gains could not only boost their taxable income past the point where the gains would be taxable, but could make Social Security payments taxable as well.

Eligible working clients may be able to reduce their taxable income back below the zero percent tax ceiling by using proceeds from the sale of the assets to increase contributions to pre-tax retirement plans, like 401(k)s or IRAs.

Clients who are able to take advantage of the zero percent tax rate but don't want to part with a cherished position can sell their appreciated asset now, and then immediately purchase it again, thereby establishing a new, higher cost basis while retaining the investment.

If the security appreciates further in the future, the realized gain (and the capital gains tax) will be smaller than it would be if they just stood pat. But if the price of the asset declines, they now would have a tax-reducing loss that they can realize.

Take the Losses Too

It's a good idea to consider taking all the losses you can for a client now and in future years, since those losses can be used to offset gains which would otherwise be taxable.

Unused losses can also be carried forward to offset the taxation of future

realized gains, or to reduce the taxation of up to $3,000 per year of future ordinary income per year until the losses are exhausted.

Remember that to avoid the "wash sale" rule, which could eliminate the tax benefits of the sale, investments sold at a loss cannot have been purchased during a window that starts 30 days before the sale and ends 30 days after the sale.

Donate the Shares

Instead of (or in addition to) writing annual checks to charities, benevolent clients might want to give those appreciated shares directly to a qualified organization. The clients will get a tax break on the donation, and the charity can then sell the shares with no capital gains tax owed by anybody.

If you're extra savvy, you can help your clients first donate some shares to the charity, and then use the ensuing tax break received by that donation to offset the taxable gain on the sale of another batch of shares, the proceeds from which the clients can then keep.

When the value of the shares the clients wish to sell exceeds the amount they wish to donate right now, the clients can instead donate the shares to a donor-advised fund.

The clients of course cannot take that donation back for their own use. But they get the deduction now, and can still decide the timing, amounts and recipients for donations from the donor-advised fund in the future.

Rebalance in Retirement Accounts

Clients looking to lighten up their appreciated investments should first

consider selling investments held in tax-sheltered accounts like IRAs, Roth IRAs, 401(k)s, and tax-deferred annuities.

If those sales turn out to be premature, the clients will still have their more aggressive investments held in non-sheltered accounts, where they could be sold for higher prices and/or a lower tax rate in the future.

But if those retained assets decline in value, they could be sold at a loss for tax purposes. And whatever you and your clients woul have sold in the tax-sheltered accounts will not only be shielded from the decline, but can use the parked funds to reinvest at the new, lower prices.

Dying to Avoid Taxes

Older clients and those in poor health should consider holding off on selling any highly appreciated assets that would otherwise generate an unwanted tax bill.

Once the owner of the asset passes away, the heirs will of course get a stepped-up cost basis on the inherited assets, and can then keep or sell the position with little regard for taxes.

Better yet, if the assets are held jointly by a married couple, upon the death of the first spouse the surviving member of the couple may get a step-up in the assets' cost basis, and can then turn around and sell them with little or no tax liability.

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