Spring 2023

# Financial planner

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### Spring 2023 Newsletter Topics



### Best Ways to Recession-Proof Your Finances

**One. Pay down your credit card debt.** Try to pay down as much as you can afford to avoid large interest payments. You may also consider debt consolidation. Not only can this make life easier by consolidating your debts down to one payment each month, but you may also be able to save hundreds or thousands on interest if you get a consolidation loan with a lower rate than your credit cards. And don't forget to monitor your automatic payments and eliminate unnecessary or discretionary expenses:

*Continued on page 2*

## What Coolio, Prince and Picasso didn't have that you should

When the rapper Coolio died in September, he joined a group of notables that includes Prince, Howard Hughes and Pablo Picasso — all of whom died without specifying who should inherit their money and estate.

Coolio, whose legal name was Artis Leon Ivey Jr., died at age 59 after being found unresponsive on the floor of a bathroom at a friend's house, according to media reports. An official cause of death has not been determined.


Getty Images/ISTOCKPHOTO

Coolio's former manager, Jarez Posey, recently filed a probate case to appraise the late "Gangsta's Paradise" artist's estate, according to the Los Angeles Times.

The filing named Coolio's seven adult children, who reportedly now wear his ashes in necklaces, as his next of kin and the probable beneficiaries of his estate. He also had three other children who are still minors.

The estimated value of Coolio's estate is more than $300,000,000.00 including "personal property and demand deposit accounts, financial accounts, insurance policies and royalties," according to media reports.

Coolio is far from alone in not having drawn up a will. According to a 2021 Gallup poll, fewer than half of U.S. adults, just 46%, have a will that outlines how they want their estate to be handled after their death.

"It's a touchy subject — talking about your own mortality is hard to deal with. People often put their head in the sand and figure they won't be around to deal with it. But it's important," said Kelly Webber, director of account administration at Spinnaker Trust in Portland, Maine.

The experts are pretty much all in agreement on this topic.

"There's so much to this and no one wants to talk about it. Why grow the money if you don't take the hard steps of protecting it and deciding where it goes?" said Eric Bond of Bond Wealth Management in Long Beach, Calif. "It's a disaster. Not many people focus on the foundation of estate planning. It's the bedrock of life."

If you die without a will — known in legal terms as dying intestate — a local probate court then has to decide how to distribute your property. That process can take months or even years to sort out, depending on the complexities of the estate, and the outcome may be different than what the deceased wanted, legal experts say.

"In some states, the probate process is very costly and arduous to get through," Webber said.

And a will is only one part of the estate-planning process — "just one tool in the toolbox," said Patrick Simasko, an elder-law attorney and financial adviser at Simasko Law in Mount Clemens, Michigan. "You need a whole toolbox of documents, from a medical power of attorney to a financial power of attorney and beneficiary designations on all your accounts.

"People think a will controls everything, but it's all about the beneficiaries," he said.

For example, if you have a beneficiary listed on your 401(k) plan, that designation would override any wishes stated in your will. So it's important to make sure your beneficiaries and secondary beneficiaries are up to date on all your accounts, Simasko said.

"For 99% of the planet, a will doesn't mean much. The beneficiary designations are what matter. If you don't have those designations, then the will comes into play," Simasko said.

And if someone is cut out of a will who would normally get an inheritance, such as a spouse, they can contest or challenge that will, Webber said.

For estate planning, the other documents you need to maintain include a durable power of attorney, which states many people are paying for subscriptions they do not use or need.

**Two. Create a budget.** And stick to it. Start weekly if a monthly budget seems daunting.

**Three. Start saving.** It's okay to start with small goals and build over time – even an emergency fund of $500 can be enough to insulate yourself from the most common financial shocks. Consider setting up automatic transfers to your savings account.

**Four. Take advantage of higher savings rates.** There's a silver lining to market downturns – you can earn better returns on savings accounts and share certificates.

**Five. Re-think real estate.** If you plan to sell your home, do your research. If inventory is low, you may sell quickly and on your terms. If inventory is high, you may have to compromise, but will face a friendlier market when you are shopping for another home. If you want to stay put, continue to save to protect yourself from a potential layoff.

**Six. Stay vigilant against scams.** Fraudsters take advantage during economic downturns. Practice saying "No." Remember: if it seems too good to be true, it probably is. Never share your card PIN, online banking User ID or password, the CVV (3 digits) on the back of your credit card, your account number, or other personal information. Never send money to people you don't know or have just met who are insisting you transfer money immediately.

who can make financial decisions on your behalf if you are incapacitated; a healthcare power of attorney, which names a person who can make medical decisions for you if you are unable to make them for yourself; and guardianship designations if you have minor children.

These documents and beneficiaries should be reviewed every few years or after any major life changes, such as getting married or having children, experts say.

Other accounts, such as brokerage accounts or bank accounts, can have "pass on death" or "transfer on death" designations that would immediately put the funds into the hands of the person of your choosing upon your death, Webber said.

Other things to consider are a letter of intent in which you describe for the executor of your estate what your final wishes are regarding your burial or funeral. A letter of intent is not legally binding for monetary items, though, so your wishes regarding your financial estate should be in the form of a will, Webber said.

You can designate who will receive tangible assets, such as your grandmother's pearls or your favorite china, in a separate list that typically should be signed and referred to in your will. One benefit of maintaining such a list is that you can update the beneficiaries of your tangible personal property without having to update your will itself, Webber said.

The list should not contradict anything in your will, however, and it should clearly describe the items. It's also a good idea to include contact information for specific beneficiaries to make sure the items find their proper home, Webber said.

Better yet, you can start giving away some of your belongings before you die, Bond said.

"Put names on the paintings and furniture now so it doesn't become a family fight later," Bond said. "You'd be amazed what families fight about."

## *The Benefits of Investing Early in Life*

Timing the market for the perfect trade can be a tricky and potentially dangerous proposition—even for the most seasoned investors. That's why the buy and hold strategy has been a popular investment tactic among many successful investors like Warren Buffett and Jack Bogle.

And thanks to the power of compound interest, it's important to start as early as possible.

**Compound Interest** The reason that investing early is so beneficial is because of compound interest. Simply put, compound interest is the phenomenon of earning interest on interest. For instance, let's say you make an initial deposit of $1,000 in an account that returns 10% annually. By the end of the year, you'll earn $100 in interest. In the following year, with your total now at $1,100 and assuming the same rate of return, you'll earn $110 in interest.

And these annual gains, while starting off small, add up significantly over time.

**What If I Double Down When I Have More Money?** What happens when you wait to invest?

Though you should only invest money that you don't need access to in the short term, the reality is that waiting will have consequences on your long-term gains.

For example, let's say you started investing at 20 years old, and you invest $250 each month with an 8% annual rate of return. By the time you reach 65, over 50% of your total portfolio would have come from money that you invested in your 20s.

**TIME IN THE MARKET BEATS TIMING THE MARKET.**

Someone who invests a decade later than their peer with double the amount will see actually see lower returns in the long run.

**Long-Term Investing is Declining** Despite the benefits of long-term investing, it seems that many investors these days are opting for shorter holding periods and quick gains over long-term growth.

For instance, according to the NYSE, the average holding period for stocks in the late 1950s was 8 years. By June 2020, the average holding period had dropped to 5.5 months.

That being said, recent interest rate hikes and threats of a recession could lead to a major slowdown. While quick-win investing has been trending in recent years, we may very well see long-term investment strategies regain some footing.

## *A Summary of the Secure 2.0 Act of 2022*

On December 29, 2022, the SECURE 2.0 Act was signed into law. The legislation expands on many retirement planning areas addressed by the original SECURE Act of 2019.

While some of the details still need to be clarified by various government agencies, the new law makes some significant changes in several retirement and tax planning areas. Here is a summary of 17 of the provisions that are most impactful to individuals, what is changing, and when they go into effect.

### Distribution Rule Changes

**Further Increase to Required Minimum Distribution (RMD) Age** When the original SECURE Act passed in 2019, the age to start RMDs from certain retirement accounts was raised from the longstanding age of 70½ to age 72. The SECURE 2.0 Act further raises the RMD age. For individuals who turn 72 after December 31, 2022, and 73 before January 1, 2033, the RMD age is 73. For individuals who turn 75 after December 31, 2032, the RMD age is 75. Those who turned 72 in 2022 will still need to satisfy their first RMD by April 1, 2023.

**Elimination of RMDs for Employer Plan Roth Accounts** Under current law, employer plan Roth accounts, such as Roth 401(k) and Roth 403(b), are subject to the same RMD rules as all other accounts in an employer plan. Starting in 2024, Roth accounts in employer plans will no longer require RMDs during the owner's life, aligning them with the rules of Roth IRAs. (Note: RMDs for employer plan Roth accounts will still be due for 2022 and 2023.)

**Reduction in the Missed RMD Penalty** Under prior law, missed RMDs were subject to a 50% penalty of the amount not taken. Starting in 2023, the penalty is

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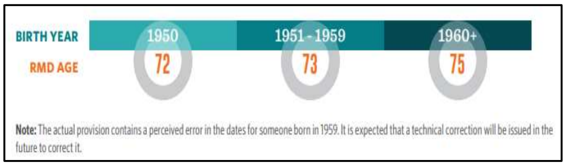
As always, we encourage investing with your goals in mind, keeping a reserve for emergency needs.

We are available for in person, phone or zoom reviews. Give the office a ring and we can discuss your investing goals and needs.

reduced to 25%. If the mistake is deemed to be corrected in a timely manner, the penalty can be further reduced to 10%.

**Additional Surviving Spouse Distribution Option** Under current law, a surviving spouse has several options to choose from when determining how to inherit a qualified account from a deceased spouse. The SECURE 2.0 Act adds one more option to the list. Starting in 2024, a surviving spouse will be allowed to elect the option to be treated as their deceased spouse. This means they can use their deceased spouse's date of birth to calculate RMDs. This could be beneficial for a surviving spouse who is older than his or her deceased spouse. Another benefit to this election is that it does not eliminate the stretch option for an eligible designated beneficiary of the surviving spouse.




**Substantially Equal Periodic Payment Exception Changes (also known as 72(t) distributions)** Under current law, any account that is being used for a 72(t) distribution is not eligible for a partial rollover or partial transfer. A rollover or transfer of anything less than the entire account balance results in a material modification of the 72(t) distribution, resulting in retroactive penalties. Under the SECURE 2.0 Act, starting in 2024, partial rollovers or transfers of such accounts will not result in a penalty provided that the aggregate distributions taken from the original and the new account satisfy the 72(t) requirement. Example: An individual has an IRA at company ABC currently receiving a 72(t) distribution. Starting in 2024, he or she could transfer part of it to an IRA at company XYZ, and if the combined distributions from the accounts at ABC and XYZ meet the 72(t) requirement, it would not be considered a material modification. Since the aggregate distribution amount does not change, neither account is subject to retroactive penalties.

## CONTRIBUTION RULE CHANGES

**Traditional and Roth IRA Catch-Up Contributions To Be Indexed to Inflation** Under current law, the Traditional and Roth catch-up contribution limit for those age 50 and over is a flat $1,000 not adjusted for inflation. Starting in 2024, the catch-up contribution will be adjusted annually for inflation in $100 increments.

**Employer Roth Contributions** Under prior law, all employer contributions to an employer-sponsored plan were treated as pretax contributions. After the passing of the SECURE 2.0 Act, employees can elect to have these contributions directed to a Roth option. While this is effective immediately, the IRS will likely need to issue additional guidance before employers and administrators can accommodate the change in rules.

**Mandatory Roth Catch-Up Contributions for High Earners** Not only will the SECURE 2.0 Act allow more flexibility for Roth contributions in employer plans, it will also require certain high-income individuals wishing to make catch-up contributions, to do so on an after-tax basis. Starting in 2024, individuals aged 50 and older whose wages exceed $145,000 (indexed annually for inflation) in the previous year from the employer sponsoring the plan, will be required to make catch-up contributions on a Roth basis. In other words, the catch-up contribution, if made, will be included in their taxable income, and cannot be made on a pretax basis. (Note: This rule change only pertains to 401(k), 403(b), and governmental 457(b) plans, not Traditional or SIMPLE IRAs. What is also not specifically addressed is the scenario in which someone changes jobs and does not have income from their current employer in the previous year, or if he or she has income from multiple employers that, in aggregate, exceeds the limit.)

**Increased Employer Plan Catch-Up Contributions for Those Aged 60, 61, 62, and 63** Starting in 2025, individuals aged 60, 61, 62, and 63 participating in an employer plan with a salary deferral component will be eligible for an additional catch-up contribution. For 401(k) and 403(b) plans, the catch-up contribution limit will be increased to the greater of $10,000 (indexed annually for inflation) or 150% of the regular catch-up contribution limit for the year. For individuals making salary deferral contributions in a SIMPLE IRA, the catch-up limit will be increased by the greater of $5,000 (indexed annually for inflation) or 150% of the regular SIMPLE IRA catch-up contribution for the year. (Note: As described above, some individuals will be required to make catch-up contributions on a Roth basis. There may be a perceived drafting error in this provision that would disallow catch-up contributions. A technical correction is expected at some point.)

**Roth Contributions for SEP and SIMPLE IRAs** Beginning in 2023, the SECURE 2.0 Act allows Roth contributions to both SEP and SIMPLE IRAs. In the past, all contributions to these accounts were made on a pretax basis. Moving forward, any amount allocated to a Roth option will be included in the taxpayer's income for the year. Even though the SECURE 2.0 Act authorizes these types of accounts starting January 1, 2023, it may take some time before custodians and employers can accommodate these elections.

**Matching Contributions on Qualified Student Loan Payments** Starting in 2024, the SECURE 2.0 Act will allow employers to treat qualified student loan payments made by the employee as elective deferrals in determining a matching contribution in an employer-sponsored plan. This provision will allow employees to take advantage of a company's match even if they are not contributing to the plan because they are making student loan payments, or if they are not contributing enough to receive the full match.

## OTHER PROVISIONS

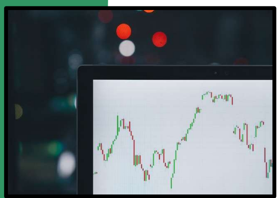
**Exceptions to the 10% Early Withdrawal Penalty**

*Qualified Disaster Recovery Distributions* If an individual's primary place of residence is within a federally declared disaster area, he or she is allowed to distribute a maximum of $22,000 from qualified retirement accounts free of the 10% penalty. The distribution must be taken within 180 days of the disaster and can be included in income either in the year of the distribution or ratably over three years beginning in the year of the distribution. Amounts taken under this exception can be paid back within three years to avoid taxation. This exception can be applied retroactively to disasters occurring after January 26, 2021.

*Terminal Illness* Starting in 2024, if an individual is certified by a physician as having an illness or condition which can reasonably be expected to result in death within 84 months or less, he or she may be eligible for the terminal illness exception.

 See disclaimer on final page

## WHAT YOU NEED TO KNOW ABOUT MARKET CORRECTIONS



A market correction is just what the name implies—a 10% drop in stock prices that occurs when a market rally has gotten a little ahead of itself.

Buying and holding stocks for the long term may not be exciting, but it's historically been an effective strategy.

A diversified portfolio consisting of a broad assortment of investments can be a wise strategy to help weather market corrections.


*Domestic Abuse* Starting in 2024, victims of domestic abuse will be able to withdraw up to: the lesser of 50% of their vested balance, or $10,000 (indexed for inflation) from a defined contribution plan, free of the 10% penalty. To avoid potential taxation, the amount can be repaid within three years of the withdrawal.

*Emergency Withdrawal* Starting in 2024, individuals who experience an unforeseeable or immediate financial need relating to necessary personal or family emergency expenses may be able to withdraw money from a qualified account without penalty. The amount of the withdrawal is capped at $1,000 and only one emergency withdrawal will be permitted each calendar year. In addition, if someone has already taken an emergency withdrawal, to be eligible to take a subsequent withdrawal, one of the following will need to occur:

- The individual has fully repaid the prior emergency withdrawal;
- Three years have passed since the last emergency withdrawal; or
- The individual's regular contributions since the withdrawal have exceeded the amount of the withdrawal.

**529 Roth IRA Transfers** The SECURE 2.0 Act is ushering in a new type of tax-free transfer/rollover. Starting in 2024, individuals will be allowed to transfer/rollover funds directly from a 529 savings account to a Roth IRA. This was initially proposed in the College Savings Recovery Act of 2017 and has now finally been made law as part of the SECURE 2.0 Act. While it is potentially a good option for leftover education funds, it comes with many limitations.

- The 529 account must be open for at least 15 years.
- Any contributions made in the last five years, and any earnings associated with those contributions, are ineligible for transfer.
- The funds must be transferred to a Roth IRA in the name of the 529 account's beneficiary (not the owner).
- The amount that can be transferred each year is the beneficiary's IRA contribution limit for that year, meaning the beneficiary must have earned income.
- Any regular IRA contributions made each year decrease the amount available for transfer. Example: If the beneficiary has a Roth IRA contribution limit of $6,500 for the year, but they make a $2,000 Roth IRA regular contribution, only $4,500 could be transferred from the 529 to the Roth for that year.
- The maximum transfer allowed per individual's lifetime is $35,000.

The idea behind this newly allowed transfer seems straightforward. If a beneficiary has leftover funds in a 529 account that were not used for college, they can be transferred to a Roth IRA to be used for retirement instead. It encourages education savings in 529 accounts, with some level of protection against having to pay penalties if the beneficiary doesn't end up using it all for education, or they choose to not attend college at all. Note: There are many unanswered questions about this new provision that will require future guidance to determine exactly how to interpret the nuances of this new rule.

**Emergency Savings Account in Employer Plans** Starting in 2024, employer-sponsored retirement plans, such as 401(k) and 403(b), will be allowed to offer participating employees an emergency-linked savings account to be used for unanticipated expenses. Employees who are not a more than 5% owner in the business, not in the top 20% of compensation for the employer, and not a highly compensated employee ($135,000 for 2023) will be allowed to contribute a maximum of $2,500 to these accounts. These emergency savings accounts will be linked to the existing employer-sponsored plan and will count as deferred salary for purposes of matching employer contributions. Contributions will be treated as being made after tax, and distributions will be tax- and penalty-free. **Note**: There are still aspects of this new provision that need to be clarified.

## *How to Learn to Worry Less and Love a Market Correction*

In the aftermath of the financial crisis, stocks were the go-to investment option for more than a decade. We'd been riding a high for so long that we found ourselves caught off guard by the severe but brief bear market that occurred due to the COVID-19 pandemic. That bear—along with the 2022 bear market spurred by record inflation and interest-rate hikes—serves as an important reminder: Declining markets are a natural part of investing.

Though a down market can be alarming, it could actually be good news for long-term investors who are prepared and have a plan.

**A DOWNTURN COULD ACTUALLY BE GOOD FOR INVESTORS – IF THEY HAVE A PLAN**

**A Correction Isn't a Crash** A market correction is just what the name implies—a 10% drop in stock prices that occurs when a market rally has gotten a little ahead of itself. The drop may seem a bit frightening at first. With the hefty equity and bond-market losses of 2022 still fresh in investors' minds, it's understandable why most of us would feel a tinge of apprehension. But don't panic.

**Develop and Stick to a Sensible Plan** Timing the market is extremely difficult; some would even say it's impossible. But that doesn't stop many investors from shifting their investments into cash in an effort to avoid market downturns. Consequently, they may miss out on some of the market's biggest gains while they sit on the sidelines.

Rather than trying to time the market, investors should focus on time in the market, allowing their investment returns to compound year after year. Don't sell just because others are selling. If you sell your stocks after they drop in value, you may end up in worse shape than if you stayed invested.

When you look at quarterly returns for the stock market, it appears to be quite volatile. But viewed over a longer time period, the market appears relatively tranquil—an insight that may be forgotten amid short-term market swings. Buying and holding stocks for the long term may not be exciting, but it's historically been an effective strategy.

**Be Greedy When Others Are Fearful** "The more [the market] goes down, the more I like to buy," investor Warren Buffett said as he bought stocks during a sell-off in 2014.

Likewise, you can take advantage of volatility by buying quality stocks at a discount if this strategy makes sense base on your investment time horizon and risk profile. Buying stocks when they're attractively priced could help enhance the long-term growth potential of your portfolio.

**Failing to Plan Is Planning to Fail** The market's cyclical nature is a fundamental truth investors should keep in mind, and a diversified portfolio consisting of a broad assortment of investments can help lessen the impact of market corrections.

## *Taxation of Investments*

It's nice to own stocks, bonds, and other investments. Nice, that is, until it's time to fill out your federal income tax return. At that point, you may be left scratching your head. Just how do you report your investments and how are they taxed?

**Is It Ordinary Income or a Capital Gain?** To determine how an investment vehicle is taxed each year, first ask yourself what went on with the investment that year. Did it generate interest income? If so, the income is probably considered ordinary. Did you sell the investment? If so, a capital gain or loss is probably involved. (Certain investments can generate both ordinary income and capital gain income, but we won't get into that here.)

If you receive dividend income, it may be taxed either at ordinary income tax rates or at the rates that apply to long-term capital gain income. Dividends paid to an individual shareholder from a domestic corporation or qualified foreign corporation are generally taxed at the same rates that apply to long-term capital gains. Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0 percent, 15 percent, and 20 percent depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income. But special rules and exclusions apply, and some dividends (such as those from money market mutual funds) continue to be treated as ordinary income.

The distinction between ordinary income and capital gain income is important because different tax rates may apply and different reporting procedures may be involved. Here are some of the things you need to know.

**Categorizing Your Ordinary Income** Investments often produce ordinary income. Examples of ordinary income include interest and rent. Many investments — including savings accounts, certificates of deposit, money market accounts, annuities, bonds, and some preferred stock — can generate ordinary income. Ordinary income is taxed at ordinary (as opposed to capital gains) tax rates.

But not all ordinary income is taxable — and even if it is taxable, it may not be taxed immediately. If you receive ordinary income, the income can be categorized as taxable, tax exempt, or tax deferred.

- **Taxable income**: This is income that's not tax exempt or tax deferred. If you receive ordinary taxable income from your investments, you'll report it on your federal income tax return. In some cases, you may have to detail your investments and income on Schedule B.
- **Tax-exempt income**: This is income that's free from federal and/or state income tax, depending on the type of investment vehicle and the state of issue. Municipal bonds and U.S. securities are typical examples of investments that can generate tax-exempt income.
- **Tax-deferred income**: This is income whose taxation is postponed until some point in the future. For example, with a 401(k) retirement plan, earnings are reinvested and taxed only when you take money out of the plan. The income earned in the 401(k) plan is tax deferred.

A quick word about ordinary losses: It's possible for an investment to generate an ordinary loss, rather than ordinary income. In general, ordinary losses reduce ordinary income.

**Understanding What Basis Means** Let's move on to what happens when you sell an investment vehicle. Before getting into capital gains and losses, though, you need to understand an important term — basis. Generally speaking, basis refers to the amount of your investment in an asset. To calculate the capital gain or loss when you sell or exchange an asset, you must know how to determine both your initial basis and adjusted basis in the asset.

First, initial basis. Usually, your initial basis equals your cost — what you paid for the asset. For example, if you purchased one share of stock for $10,000, your initial basis in the stock is $10,000. However, your initial basis can differ from the cost if you did not purchase an asset but rather received it as a gift or inheritance, or in a tax-free exchange.

Next, adjusted basis. Your initial basis in an asset can increase or decrease over time in certain circumstances. For example, if you buy a house for $100,000, your initial basis in the house will be $100,000. If you later improve your home by installing a $5,000 deck, your adjusted basis in the house may be $105,000. You should be aware of which items increase the basis of your asset, and which items decrease the basis of your asset.

**Calculating Your Capital Gain or Loss** If you sell stocks, bonds, or other capital assets, you'll end up with a capital gain or loss. Special capital gains tax rates may apply. These rates may be lower than ordinary income tax rates.

Basically, capital gain (or loss) equals the amount that you realize on the sale of your asset (i.e., the amount of cash and/or the value of any property you receive) less your adjusted basis in the asset. If you sell an asset for more than your adjusted basis in the asset, you'll have a capital gain. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $15,000, your capital gain will be $5,000. If you sell an asset for less than your adjusted basis in the asset, you'll have a capital loss. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $8,000, your capital loss will be $2,000.

*Content courtesy of*

Patelco Credit Union – Best Ways to Recession-Proof Your Finances. www.patelco.org

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Transamerica – A Summary of the Secure 2.0 Act of 2022. https://www.transamerica.com/sites/default/files/files/e070d/2703199_0123_advanced_markets_-_summary_of_the_secure_2.0_act_final_d.pdf

Hartford Funds – How to Learn to Worry Less and Love a Market Correction. How to Learn to Worry Less and Love a Market Correction (hartfordfunds.com)

Broadridge Investor Communications Solutions, Inc. – Taxation of Investments

Schedule D of your income tax return is where you'll calculate your short-term and long-term capital gains and losses, and figure the tax due, if any. You'll need to know not only your adjusted basis and the amount realized from each sale, but also your holding period, your taxable income, and the type of asset(s) involved.

- **Holding period**: Generally, the holding period refers to how long you owned an asset. A capital gain is classified as short term if the asset was held for a year or less, and long term if the asset was held for more than one year. The tax rates applied to long-term capital gain income are generally lower than those applied to short-term capital gain income. Short-term capital gains are taxed at the same rate as your ordinary income.
- **Taxable income**: Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0%, 15%, and 20% depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income.
- **Type of asset**: The type of asset that you sell will dictate the capital gain rate that applies, and possibly the steps that you should take to calculate the capital gain (or loss). For instance, the sale of an antique is taxed at the maximum tax rate of 28 percent even if you held the antique for more than 12 months.

### Using Capital Losses to Reduce Your Tax Liability

You can use capital losses from one investment to reduce the capital gains from other investments. You can also use a capital loss against up to $3,000 of ordinary income this year ($1,500 for married persons filing separately). Losses not used this year can offset future capital gains. Schedule D of your federal income tax return can lead you through this process.

**New Medicare Contribution Tax on Unearned Income May Apply** High-income individuals may be subject to a 3.8 percent Medicare contribution tax on unearned income (the tax, which first took effect in 2013, is also imposed on estates and trusts, although slightly different rules apply). The tax is equal to 3.8 percent of the lesser of:

- Your net investment income (generally, net income from interest, dividends, annuities, royalties and rents, and capital gains, as well as income from a business that is considered a passive activity), or
- The amount of your modified adjusted gross income that exceeds $200,000 ($250,000 if married filing a joint federal income tax return, $125,000 if married filing a separate return)

So, effectively, you're subject to the additional 3.8 percent tax only if your adjusted gross income exceeds the dollar thresholds listed above. It's worth noting that interest on tax-exempt bonds is not considered net investment income for purposes of the additional tax. Qualified retirement plan and IRA distributions are also not considered investment income.

### Getting Help When Things Get Too Complicated

The sales of some assets are more difficult to calculate and report than others, so you may need to consult an IRS publication or other tax references to properly calculate your capital gain or loss. Also, remember that you can always seek the assistance of an accountant or other tax professional.