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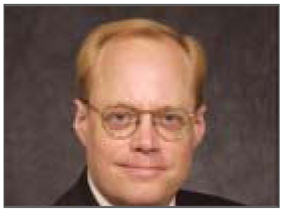

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Given Tax Rates, To Sell Or To Hold, That Is The Question

If you're trying to optimize returns and minimize taxes, you may have a nerve-wracking wait. It is already mid-December and a dilatory Congress hasn't left us much time. If you have appreciated stock or real estate, the 15% capital gain rate has ***never*** been lower but applies only through December 31, 2012. Odds are you'll face 23.8% starting January 1, 2013.


(Photo credit: Wikipedia)

Congress could extend the Bush tax cuts for anyone with less than $250,000 of income or some other number, but is unlikely to do so for everyone. Cashing in now may make sense–the 15% rate may never return. See Like A Jedi, Sell A Business, Real Estate Or Stock This Year. You might sell a business, real estate, or just some stock.

Consider Losses Too. Tax considerations could also propel you to sell to soak up losses. "Loss harvesting" is selling and realizing them. Unlimited offsetting is allowed as long as your gains exceed your losses. If you run out of long term gains to offset long term losses you can only offset $3,000 of ordinary income each year. That means it would take 100 years to soak up $300,000 of accumulated losses!

Collectibles? If you think selling your coin collection this year will be taxed at only 15%, think again. Collectibles such as coins and art are taxed at a maximum rate of 28%.

AMT! The AMT two-year patch covered only 2010 and 2011. For most of us, the practical dollar effects of AMT are far more than the capital gain rate spread, or between 35% and 39.6% top rates on ordinary income. AMT is a stealth tax, and 30 million taxpayers are already being hit by AMT. See What's The Unkindest Tax Of All?

Accelerating deductions usually makes sense, but you may not want to take deductions if they will create problems like AMT. If you don't always itemize, bunching payments together can make sense so you get maximum advantage in years when you do itemize.

Gifts Too. Then there is the estate and gift tax mess. Most people ***still*** haven't taken advantage of the $5 million exemption expiring December 31, 2012. Indexed for inflation, it is now $5,120,000. But it drops to $1 million January 1, 2013. A free pass to give away up to $5,120,000 without tax (up to $10,240,000 for a married couple) may never come again. See Grab The $5M Gift And Estate Tax Perk: It's Gone In 2013.

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