

Tax Rules For Selling Stocks

When investors are considering selling a stock, they must first be aware of the tax rules that come with liquidating a position.

Selling at a Profit

If a trade is going to be profitable, investors should look to see if the capital gains are short-term or long-term.

Short-term Capital Gains

A stock that was held for less than a year is considered short-term.

For example, if Scott buys \$5,000 worth of Coca-Cola stock, and sells all the shares two months later for \$6,000, turning a \$1,000 profit, Scott will report \$1,000 as short-term capital gains, which will be taxed at his ordinary income rate.

Long-term Capital Gains

Stocks that are held for longer than a year before being sold are taxed as long-term capital gains, which are more favorable from a tax perspective. Long-term capital gain tax rates range from as high as 20% to as low as 0%.

For example, if Scott buys \$5,000 worth of Coca-Cola stock and sells all the shares one year later for \$6,000, Scott will report \$1,000 as long-term capital gains. Depending on his income, Scott could save as much as 20% in taxes by selling his shares as long-term instead of short-term.

Selling at a Loss

Investors can also make lemonade from their losing positions by selling stocks at a loss. Under the right circumstances, this can be a strategic move to offset gains in other positions.

For example, Steve can sell his Coca-Cola stock for a \$1,000 profit and report \$0 in gains, so long as he reports another \$1,000 loss in the same calendar year, as the loss offsets the gain.

If there are no gains to offset the losses, an investor can take their losses and deduct it from their income, up to \$3,000. In other word, investors having a rough year playing the stock market can take their losses and use them in the future as a deduction.

There are several other tax rules to keep in mind when selling stocks, including the wash rule. For investors with sizable gains or losses unsure of all the regulations regarding stock sales, consider consulting with a professional before liquidating any position.