Mariner
WEALTH ADVISORS

How to Shrink Your Long-term Capital Gains Taxes

When it comes to investing, what matters most isn't what you earn—it's what you keep after taxes. That's why it's important to plan ahead to minimize taxes on realized investment gains.

Think Long Term

Long-term capital gains—those resulting from the sale of investments held for more than a year—are taxed at a lower rate than short-term capital gains. Long-term gains are taxed at a maximum rate of 20%, while short-term gains are taxed at your ordinary income tax rate, which could be significantly higher. Paying taxes at lower rates, of course, means you get to keep more of your investment profits. So wherever possible, you may want to avoid selling well-performing stocks within a year or less.

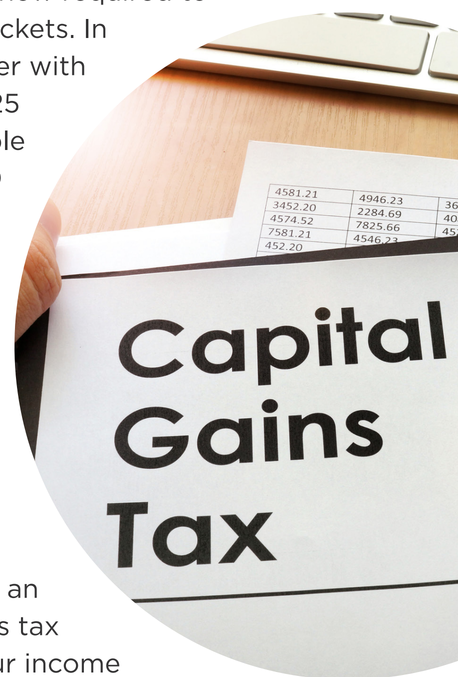
Max Out Your Tax-Advantaged Accounts

Tax-conscious investors should also consider contributing the maximum to available tax-advantaged accounts, such as 401(k)s and IRAs, before funding taxable accounts. For 2023, individual contribution limits are $22,500 (and increases to $23,000 for 2024) for 401(k) accounts and $6,500 in 2023 (increases to $7,000 in 2024) for traditional IRAs.[1]

Not only do contributions to these accounts grow tax deferred, but realized capital gains within them are not subject to capital gains taxes.* That's valuable when, for instance, the periodic buying and selling that may be required to maintain an optimal balance of asset classes leads to the sale of well-performing investments.

Take Advantage of Changing Tax Brackets

Capital gains tax rates may remain unchanged for years, but tax brackets—the income ranges that determine the rate you're subject to—may be adjusted periodically for inflation. Long-term capital gains tax brackets were adjusted upward for 2023, meaning more income is now required to reach the 15% or 20% brackets. In 2023, if you're a single filer with taxable income of $44,625 or less, or a married couple filing jointly with $89,250 or less, you don't have to pay capital gains taxes at all.[2] Note that capital gains rates will not change in 2024, but the brackets for the rates will change. Consult with your wealth advisor and tax professional for advice on your situation. It's always worth keeping an eye on those capital gains tax brackets, especially if your income tends to fluctuate from year to year. If that's the case, it may make sense to realize gains in less-lucrative years.



Harvest Your Losses

Selling stocks or other assets that have declined in value can help you to reduce tax liabilities from gains realized elsewhere in your portfolio. "Harvested" losses can be used to offset realized gains and up to $3,000 of other taxable income per year for individuals. And excess losses that you don't apply in one year can be banked and used in future years.

No Sale, No Taxes

In some cases, it can make sense for high-income investors to keep promising holdings with an eye toward transferring them upon their death to heirs. No sale during your lifetime means no capital gains tax liability. Under current law, a tax basis step-up is typically applied to assets at the time of inheritance. Essentially, the assets' appreciated value is reset to its current market value, thus reducing potential tax liabilities upon their eventual sale.

Donate Appreciated Assets

If you are inclined to support charitable causes, donating appreciated assets rather than cash can be a tax-smart strategy. Doing so can provide a double tax benefit, as it allows for a charitable deduction at the assets' current market value while eliminating capital gains tax on their appreciation. If you're not sure which charities you want to give to, consider using a donor-advised fund (DAF). Contributions to these charitable giving vehicles earn the same tax treatment as direct gifts to charities, and you can choose eligible charities to fund at a later time.

Rolling Over Your Gains

If you wish to reinvest your realized gains, opportunity zones are an option that can provide a tax advantage. Opportunity zones are designated economically distressed areas in the United States that offer tax incentives to encourage investment and economic development. By rolling their capital gains into a qualified opportunity zone fund, investors can avoid capital gains tax.** One drawback is limited liquidity. Typically, opportunity zone investments must remain in place for at least 10 years to receive the full tax benefit.[3]

Our Wealth Team Can Help

When it comes to capital gains taxes, there are plenty of ways to lower, or, in some cases, eliminate the bill. Your wealth advisor can collaborate with our in-house tax team to help you manage the amount of long-term capital gains taxes you pay.

For more information visit: marinerwealthadvisors.com

Sources

[1]"401(k) limit increases to $23,000 for 2024, IRA limit rises to $7,000"

[2]"Topic No. 409, Capital Gains and Losses"

[3]"Invest in a Qualified Opportunity Fund"

*Tax-deferred withdrawals are subject to ordinary income tax and may be subject to a 10% federal tax penalty if taken prior to age 59½.

**Opportunity zone funds are not appropriate for all investors. Investments in these funds entail significant risks, volatility, and capital loss, including the loss of the entire amount invested. The increased risk of investment loss is only appropriate for those qualified investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund.