

Year-End Tax Strategies for Stock Investors

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The volatile securities markets make year-end planning for investors especially challenging this year. As December 31 approaches, the following moves should be considered to make the best tax use of both paper and actual losses from stock market investments.

- Sell Loser Stocks to Offset Gains — With the roller coaster stock market this year, there may be a mix of winners and losers in your non-retirement plan investment portfolio. If you have a net gain for the year — from sales that were already made or capital gain distributions from investments — you should consider selling enough of the losers to offset the gain and produce a net loss of at least \$3,000. This will erase any tax liability from the gains and allow a \$3,000 deduction against ordinary income. Don't worry about having exactly a \$3,000 net loss; any unused losses will carry over to future years. Be careful not to repurchase any of the stocks that were sold at a loss for 31 days. Otherwise, the loss will not be allowed because of the “wash sale” rules. (If a married separate return is filed, substitute \$1,500 for \$3,000 in this discussion.)

- Convert a Traditional IRA to a Roth IRA — When a Traditional IRA is converted to a Roth IRA, taxes are generally paid on the value of the Traditional IRA converted. Therefore, the lower the value, the less it will cost to convert it to a Roth IRA. If one or more IRA accounts are invested in stocks that have declined in value, this might be a good time to convert to a Roth IRA.

It generally makes sense to convert to a Roth if you have many years to go before the funds are withdrawn. Another reason to convert to a Roth is to pass on money to your heirs. Unlike a Traditional IRA, there are no mandatory withdrawals by the account owner while living, and although his or her heirs will be subject to the minimum distribution rules, they generally will not be liable for income taxes.

To convert, the annual income must be \$100,000 or less for married couples filing jointly and singles, and taxes must be paid on the IRA contributions that were previously deducted and accumulated earnings in the same year. It can be a hefty bill, but if you need to take money out of your IRA to pay the taxes and you are under age 59½, there will be a 10% penalty on the amount withdrawn.

- Take Advantage of the 2008 Zero Tax Rate — If you or a family member is thinking of selling appreciated stock or other capital assets held outside of an IRA or retirement plan, and your (or their) income isn't taxed at a rate higher than 15%, you might want to consider taking advantage of the zero tax rate available in 2008. To maximize this strategy, sell just enough profitable long-term holdings so that your income is approximately at the threshold of the 25% bracket. Please call for further information.

- Substantial Losses — Even if substantial losses from sales of stocks, mutual funds or other capital assets have been incurred, the loss deduction is still limited to \$3,000 (\$1,500 married separate) for the year, with the balance being carried over to future years. This might be the time to sell other capital assets with built-in gains and use the losses that were already realized to offset the gains.

If you wish to take advantage of any of these strategies, you will need to do so before the year's end.