Client Profile:

Bob and Sue are both 55 years old
They are married, and file jointly with a Total Gross Income of $140k
Adjustments total is $40,000, broken down as follows:

- *20% to 401k pre-tax = 28k*
- *HSA = $8300*
- *Medical Premiums through payroll = $3700.*

AGI = $100k
Below the Line Deductions = $25,900 (standard deduction)

Use the formula to calculate their taxable income.
[*Total Gross Income – Adjustments*] = AGI – *Below the line deductions* = TAXABLE INCOME

[$140,000 - $40,000] = $100,000 - $25,900 = Taxable Income of $74,100

The Capital Gains tax rate for Married filing jointly with Taxable Income (including the gain) under $83,350 is 0% which creates an opportunity! This leaves Bob and Sue $9,250 before they exceed this threshold.

Bob and Sue hold a stock in their brokerage account, for which they paid $10,000. This stock is now worth $19,000. The means they have an "embedded" or "unrealized" capital gain of $9000. Given the room they have in the 0% Cap Gains bracket, they could sell this stock and owe zero federal taxes!

However, if they like the company's prospects and want to continue owning it, another option would be to sell the stock, realizing the gain but creating no tax liability, and then buy it right back!

Either of these options would allow Bob and Sue to take advantage of the tax-free gain, and reset the cost basis to the new market value, thereby reducing any tax liability on future growth.

Both scenarios above are examples of Tax Gain Harvesting.

Contact ***Sage Wealth Planning*** to learn about different strategies that may help you minimize your tax liability.