ClientLine®

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UNDERSTANDING CAPITAL GAINS AND LOSSES

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How you manage the sale of your investments impacts your overall tax picture. And to get the most out of the current tax law, you'll need to understand capital gains and losses.

WHAT'S A CAPITAL ASSET?

Capital gains or losses are generated when you sell capital assets, which are generally any property you own. Your house, car, stocks, bonds, jewelry and collectibles are all capital assets.

SHORT OR LONG-TERM?

There are two classifications of gains and losses, based on how long you owned the asset. Short term means you held the investment for one year or less, and long term applies to anything you owned for more than a year.

WHAT'S THE AMOUNT?

Generally, the amount of your gain or loss is the difference between how much you paid to purchase the asset and the amount you sold it for. Your basis in the asset also includes your costs to acquire it like sales tax, shipping and installation or set up fees. There are special rules for assets acquired by inheritance. You'll want to consult your tax professional if this applies to you.

WHAT'S THE TAX?

The tax rate you'll pay depends on whether your gain is short or long term. Tax rates for short term gains are the same as what you owe on your ordinary income. Long term gains have lower preferential tax rates.

WHAT'S A LOSS?

If you sell a capital asset for less than your basis, which is your total investment in it, you'll have a capital loss. You can generally offset these losses against gains of the same type (e.g., short term losses can offset short term gains). But only losses on the sale of financial investments are tax deductible.

Selling your home, car or other personal-use property for a loss won't trigger a tax deduction. And if your losses exceed your gains, you can offset up to $3,000 against other types of income (e.g., W-2 wages) each year and carry forward the rest to future years.

BEWARE

With the wash sale rules, if you sell a security and buy it, or a substantially similar one, within 30 days, any loss you incurred isn't tax-deductible.

TAX-EFFICIENT STRATEGIES

Capital gains taxes can significantly impact the returns on your investments. By working with a tax professional they'll help you understand the difference between short-term and long-term capital gains tax rates, ensuring that you are minimizing your tax liability.

Utilize tax-efficient strategies, such as tax-loss harvesting, where you offset gains by selling other investments at a loss. This approach can help reduce your overall taxable income for the year.

For business owners, capital gains may arise from the sale of a business or property. A tax professional can help structure the sale in a tax-advantaged way, taking into account depreciation recapture and other complex issues that could affect the final tax outcome.

Consulting a tax advisor ensures that you're making informed decisions as they are up to date on new tax laws.

CLIENT PROFILE

Christine is a small business owner who sells handmade furniture. In 2024, her business has had a successful year, and she is considering selling a piece of property she owns. The property was originally purchased for $150,000 five years ago, and its current market value is $250,000. Christine expects to make a $100,000 profit on the sale.

Since the property was held for more than a year, the profit is considered a long-term capital gain, which is typically taxed at a lower rate than ordinary income. Christine's federal long-term capital gains tax rate could range from 0% to 20%, depending on her overall taxable income for the year.

However, Christine also has some concerns about the depreciation she claimed on the property in previous years. Depreciation can result in depreciation recapture, which is taxed as ordinary income, potentially at a higher rate.

By consulting her tax advisor, Christine can determine the best course of action to minimize her tax burden with strategies like offsetting the gain with other losses or planning for any depreciation recapture, ensuring she doesn't pay more than necessary in taxes.

Client Profile is based on a hypothetical situation. The solutions discussed may or may not be appropriate for you.

LIFE INSURANCE: PART OF YOUR FINANCIAL PLAN

Life insurance, often referred to as "love insurance" is a crucial aspect of financial planning, offering essential protection for individuals and their families.

Its primary role is to provide a safety net in the event of an untimely death, helping loved ones manage financial responsibilities like mortgage payments, debts, and education costs. However, life insurance is not just for personal security; it can also serve as an important tool for business owners.

PROTECTING YOUR BUSINESS

For business owners, life insurance can be used to protect both the company and the family. A key person life insurance policy can help cover the loss of a critical employee or owner, providing the business with financial stability to weather the transition. In the case of a partnership, buy-sell agreements funded by life insurance allow surviving partners to buy out the deceased's share of the business, preventing conflicts and ensuring smooth continuity.

Additionally, some life insurance policies build cash value over time, providing a potential source of retirement savings or emergency funds. For business owners looking to diversify their financial planning, these policies can offer an alternative to traditional investment options.

TAX CONSIDERATIONS

However, life insurance policies come with various tax considerations. The proceeds from life insurance are generally tax-free for beneficiaries, but the way a policy is structured can influence how taxes affect the overall financial situation. For business owners, life insurance can have implications on both personal and business taxes, particularly when using the policy as part of succession planning or funding business agreements.

WORK WITH A PRO

A tax advisor can help business owners optimize their life insurance policies, ensuring they are tax-efficient and aligned with their overall financial goals. Whether structuring key person insurance, designing buy-sell agreements, or planning for estate taxes, a tax professional can guide business owners to make the most of their life insurance strategy.

Life insurance is essential for both personal and business financial security. For business owners, it offers additional benefits, including risk management, succession planning, and tax advantages—making it even more important to work with a tax professional to maximize these benefits.

> **72% of people overestimate the cost of a life insurance policy with the perception that it cost three times more than its actual price.**
>
> *Source: 2024 Insurance Barometer Study, Life Happens and LIMRA*

SAFEGUARD YOUR BUSINESS FROM FRAUD

Sadly, fraudsters are continually looking for ways to make a quick buck at your company's expense, so make sure you're taking steps to protect your business from all types of threats.

LOOK INSIDE

Preventing fraud from the inside involves ensuring employees' duties are adequately segregated. Make sure that more than one person has responsibility for each process. And consider requiring vacations. That will give you a chance to complete an audit in an employee's absence to ensure everything is working as intended.

ONLINE AWARENESS

Outsiders can take control of your entire network, knocking you offline and locking you out of your files until you pay them a fee. Protect your company from cyber fraud by using secure and private internet connections. When employees travel, provide them with data hotspots, so they don't need to rely on public internet options. And keep all software, firewalls, and antivirus software updated to prevent hacks and ransom attacks.

ON-PREMISE

Protecting your office goes beyond the cybersphere. Having a secure entry system helps to keep unwanted visitors out. Consider limiting employees' access to sensitive areas. For example, allowing only IT managers access to the server room.

Q

I filed my Free Application for Federal Student Aid (FAFSA) form, but I have corrections. Can I still make updates to my application?

A

For the 2024-25 academic year, the federal FAFSA deadline was June 30, 2025. However, you have until September 14, 2025 to make corrections or updates to your application.

Many states and colleges have their own earlier deadlines for financial aid. It is crucial that you check with the specific institutions you are interested in to ensure you meet their deadlines.

The 2025-26 academic year deadline to submit your FAFSA form is June 30, 2026.

MANAGE YOUR DEBT PORTFOLIO

Like most people, you probably have a debt portfolio in addition to your investment portfolio. To make the most of your finances, you need to evaluate your debts regularly, just as you evaluate your investment performance. As we approach the final quarter of 2025, now is a good time to conduct a review to stay on track. Here are some debt management tips:

01 Categorize debts into good and bad debt and assess how they align with your financial goals.

02 Focus on paying off high-interest, bad debts first.

03 Leverage good debt. Ensure your investments have a clear return pathway and weigh the risks associated with borrowing.

04 Seek professional guidance.

Navigating debt can be complex. Talking with your trusted advisor about tailoring your strategy based on your financial situation can provide valuable insights. Contact your trusted advisor today to discuss your unique situation.

YEAR-END TAX PLANNING FOR YOUR BUSINESS

September is the perfect time for business owners to review their financial standing and plan for the final quarter. Working with a tax professional now can help maximize savings, avoid surprises, and ensure smooth tax compliance. Here are key topics to discuss:

YEAR-END TAX PLANNING

Identify tax-saving opportunities before year-end. This might include deferring income, accelerating expenses, or maximizing deductions like retirement contributions or business expenses.

ESTIMATED TAX PAYMENTS

Review whether quarterly estimated tax payments are on track. September is the third quarter, and adjustments may be needed to avoid underpayment penalties.

RETIREMENT PLANS

Consider contributing to retirement plans like a 401(k), SEP IRA, or SIMPLE IRA. Tax professionals can advise you on the best strategy to reduce taxable income while preparing for retirement.

BUSINESS STRUCTURE REVIEW

Depending on your business's growth, it might be time to reassess your business structure (LLC, S-corp, etc.) for tax efficiency. A change could provide significant savings.

TAX CREDIT OPPORTUNITIES

Discuss available credits such as the Research and Development (R&D) Tax Credit or hiring incentives, like the Work Opportunity Tax Credit.

CAPITAL EXPENDITURES

If you plan to make significant purchases or investments, discuss depreciation options and how they could impact your taxes. By reviewing now, business owners can end the year strong and position themselves for success in the new year.