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Tax Planning Points for Long-term Capital Gains

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Beginning in 2001 long-term capital gains (LTCG) that would otherwise be taxed at 10% (maximum rate for LTCG in the 15% regular income tax bracket) will be taxed at a maximum rate of 8% if the asset(s) have been held for more than five (5) years. For 2000 if your tax status is "married filing jointly" the taxable income jump from the 15% to 28% regular income tax bracket is at $43,850; for singles the bracket jump is at $26,250.

The corresponding reduction of the maximum tax rate on LTCG of 20% to 18% will not be available for taxpayers to utilize until 2006 - because the holding period for assets to qualify under this provision must begin after 2000.

Relative to the reduction from 20% to 18% in 2006, there is a provision that allows taxpayers to recognize to-date gains on pre-held 2001 assets -- pay the tax on accumulated gain and get a new holding period start date in 2001. While this might be an advantage in a few situations, proceed with caution in electing to pay taxes at least 5 years in advance for a 10% (2% divided by 20%) potential tax savings. A situation where it might be appropriate to make this election is where little gain has been realized up to 2001, but very significant gains are anticipated over the next 5 years.