Last-Minute Year-End Tax Strategies for Your Stock Portfolio

Dear Reader:

When you take advantage of the tax code's offset game, your stock market portfolio can represent a little gold mine of opportunities to reduce your 2019 income taxes.

The tax code contains the basic rules for this game, and once you know the rules, you can apply the correct strategies.

Here's the basic strategy:

- Avoid the high taxes (up to 40.8 percent) on short-term capital gains and ordinary income.
- Lower the taxes to zero—or if you can't do that, then lower them to 23.8 percent or less by making the profits subject to long-term capital gains.

Think of this: you are paying taxes at a much higher rate when you pay at 40.8 percent (short-term gains) rather than the tax-favored 23.8 percent (applicable to long-term gains).

To avoid the higher rates, here are seven possible tax planning strategies.

Strategy 1

Examine your portfolio for stocks that you want to unload, and make sales where you offset *short-term* gains subject to a high tax rate such as 40.8 percent with *long-term* losses (up to 23.8 percent).

In other words, make the high taxes disappear by offsetting them with low-taxed losses, and pocket the difference.

Strategy 2

Use *long-term* losses to create the $3,000 deduction allowed against ordinary income.

Again, you are trying to use the 23.8 percent tax loss rate to kill a 40.8 percent tax rate (or a 0 percent loss to kill a 12 percent tax, if you are in the income tax bracket of 12 percent or lower).

Strategy 3

As an individual investor, avoid the wash-sale loss rule.

Under the wash-sale loss rule, if you sell a stock or other security and purchase substantially identical stock or securities within 30 days before the date of sale or after the date of sale, you don't recognize your loss on that sale. Instead, the code makes you add the loss amount to the basis of your new stock.

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If you want to use the loss in 2019, then you'll have to sell the stock and sit on your hands for more than 30 days before repurchasing that stock.

Strategy 4

If you have lots of capital losses or capital loss carryovers and the $3,000 allowance is looking extra tiny, sell additional stocks, rental properties, and other assets to create offsetting capital gains.

If you sell stocks to purge the capital losses, you can immediately repurchase the stock after you sell it—there's no wash-sale "gain" rule.

Strategy 5

Do you give money to your parents to assist them with their retirement or living expenses? How about children (specifically, children not subject to the kiddie tax)?

If so, consider giving appreciated stock to your parents and your non-kiddie-tax children. Why? If the parents or children are in lower tax brackets than you are, you get a bigger bang for your buck by

- gifting them stock,
- having them sell the stock, and then
- having them pay taxes on the stock sale at their lower tax rates.

Strategy 6

If you are going to make a donation to a charity, consider appreciated stock rather than cash, because a donation of appreciated stock gives you more tax benefit.

It works like this:

- **Benefit 1.** You deduct the fair market value of the stock as a charitable donation.
- **Benefit 2.** You don't pay any of the taxes you would have had to pay if you sold the stock.

Example. You bought GOOGLE stock for $1,000, and it's now worth $11,000. You give it to a 501(c)(3) charity, and the following happens:

- You get a tax deduction for $11,000.
- You pay no taxes on the $10,000 profit.

Two rules to know:

1. Your deductions for donating appreciated stocks to 501(c)(3) organizations may not exceed 30 percent of your adjusted gross income.
2. If your publicly traded stock donation exceeds the 30 percent, no problem. Tax law allows you to carry forward the excess until used, for up to five years.

Strategy 7

If you could sell a publicly traded stock at a loss, *do not* give that loss-deduction stock to a 501(c)(3) charity. Why? If you sell the stock, you have a tax loss that you can deduct. If you give the stock to a charity, you get no deduction for the loss—in other words, you can just kiss that tax-reducing loss goodbye.

The stock strategies have a long history in tax planning. If you need my help with any of these strategies, please call me on my direct line at 212-659-2515.

Sincerely,

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