

Temporary Capital Gains Tax Break Can Help Seniors

Over the next two years, seniors can take advantage of a capital gains tax break. From 2008 to 2010, taxpayers in the 10 and 15 percent tax brackets will pay zero percent in capital gains taxes. This means individuals in those tax brackets (the lowest two brackets) will be able to sell stocks, bonds, real estate and other assets without paying any capital gains taxes. With some proper tax planning, this can be useful for retirees and low-income seniors. 26 U.S.C. Sec. 1(h); 1(d) 1(g) 112.

Who can benefit?

This capital gains tax cut can primarily benefit the following people:

- *Adult children who support low-income parents, or seniors helping out adult children who fall into the 10 or 15 percent tax brackets.* Instead of giving cash, you can give stocks and bonds instead. You can give away \$12,000 a year tax free, and if the parents or adult children sell the stocks and bonds between 2008 and 2010, they will not pay a capital gains tax on the proceeds.
- *Retirees with investments in taxable accounts.* Tax-deferred retirement savings plans are not affected by capital gains. But if you are a retiree with stocks or mutual funds in a taxable account, you can sell without incurring a capital gains tax. If you are planning on retiring this year, you may want to sell taxable investments and delay Social Security payments or distributions from a tax-deferred plan.

Be Careful

There are some potential downsides to selling off investments, so you need to be sure it is the right step for you. Before you take any action, consult a tax professional. The proceeds from the sale of the investments will be added to your income, which can have some unintended consequences. For example, it could push you into a higher tax bracket, thereby losing some of the benefit of the zero-percent tax rate. It could also affect eligibility for Medicaid or cause previously non-taxed Social Security benefits to be taxed.

While the capital gains tax break also applies to the sale of real estate, you shouldn't sell your house solely to get the tax break. Because the sale of a house would most likely put you over the income cap for the zero percent tax rate, only a portion of the sale would qualify for the zero percent rate.