Nine Facts about Capital Gains and Losses

The term "capital asset" for tax purposes applies to almost everything you own and use for personal or investment purposes. A capital gain or loss occurs when you sell a capital asset.

1. Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. Capital assets include your home, household furnishings, and stocks and bonds that you hold as investments.

2. A capital gain or loss is the difference between your basis of an asset and the amount you receive when you sell it. Your basis is usually what you paid for the asset.

3. You must include all capital gains in your income.

4. You may deduct capital losses on the sale of investment property. You cannot deduct losses on the sale of personal-use property.

5. Capital gains and losses are long-term or short-term, depending on how long you hold on to the property. If you hold the property more than one year, your capital gain or loss is long-term. If you hold it one year or less, the gain or loss is short-term.

6. If your long-term gains exceed your long-term losses, the difference between the two is a net long-term capital gain. If your net long-term capital gain is more than your net short-term capital loss, you have a "net capital gain."

7. The tax rates that apply to net capital gains are generally lower than the tax rates that apply to other types of income. The maximum capital gains rate for most people is 15 percent. For lower-income individuals, the rate may be 0 percent on some or all of their net capital gains. Rates of 25 or 28 percent can also apply to special types of net capital gains.

8. If your capital losses are greater than your capital gains, you can deduct the difference between the two on your tax return. The annual limit on this deduction is $3,000, or $1,500 if you are married filing separately.

9. If your total net capital loss is more than the limit you can deduct, you can carry over the losses you are not able to deduct to next year's tax return. You will treat those losses as if they occurred that year.