Capital Gains and Losses

Technically, almost everything you own and use for personal, pleasure, or investment purposes is a capital asset. Capital assets include, but are not limited to, homes, household furnishings, stocks, bonds, and mutual funds. When a capital asset is sold, the difference between the amount you paid (your basis) and the amount you sold it for is generally a capital gain, or loss.

Here are some important facts about capital gains and losses:

- You must report all capital gains on your federal tax return. For most taxpayers, these generally include a primary residence (subject to significant gain exclusions), stocks, bonds, and mutual funds.
- You may deduct capital losses only on investment property (e.g., stocks and mutual funds), not on property held for personal use (e.g., homes and furnishings).
- Capital gains and losses are classified as long-term and short-term, depending on how long you hold the property before you sell it. If you hold it for more than one year, your capital gain or loss is long-term. If you hold it for one year or less, your capital gain or loss is short-term.
- The tax rates that apply to long-term capital gains are generally lower than the tax rates that apply to short-term capital gains and wages.
- If your capital losses exceed your capital gains, the excess can be deducted on your tax return and used to reduce other income, such as wages, up to an annual limit of $3,000, or $1,500 if you are married filing separately.
- If your total net capital loss is more than the annual limit on capital loss deductions, you can carry over the unused part and treat it as if you incurred it in the following year.