

# Money Matters

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## Are There Tax Benefits in Stock Market Losses?

By Aaron Skloff

Q: My investment portfolio has declined significantly in the last 18 months. Are there any tax benefits owed to me?

When you sell investments, such as stocks, bonds or mutual funds at a gain, you generally pay taxes on the capital gains. When you sell at a loss you can force the IRS to give you a tax break.

Short-term capital gains are gains on investments held for one year or less and are taxed at your income tax rate. Long-term capital gains are gains on investments held for more than one year and are either not taxed, if you are below the 15% income tax bracket, or are taxed at a 15% rate. An unlimited amount of short-term gains can be offset with short-term losses.

An unlimited amount of long-term gains can be offset with long-term losses. Additionally, you can force the IRS to provide you a net \$3,000 annual loss against your income. If you are in the top tax bracket of 35%, you can avoid paying \$1,050 in income taxes.

So, what happens if you end up with a \$36,000 net loss, for example? You can carryover the full \$36,000 into next year to offset any gains next year. If you have no gains to offset you can take a \$3,000 annual loss against your income for 12 years. Unfortunately, your carryover losses die when you die.

Like life, the timing of your transactions is everything. The IRS discourages you from locking in your losses and buying back the same or substantially identical investment through its wash sale rule.

So take your losses while the taking is good.

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