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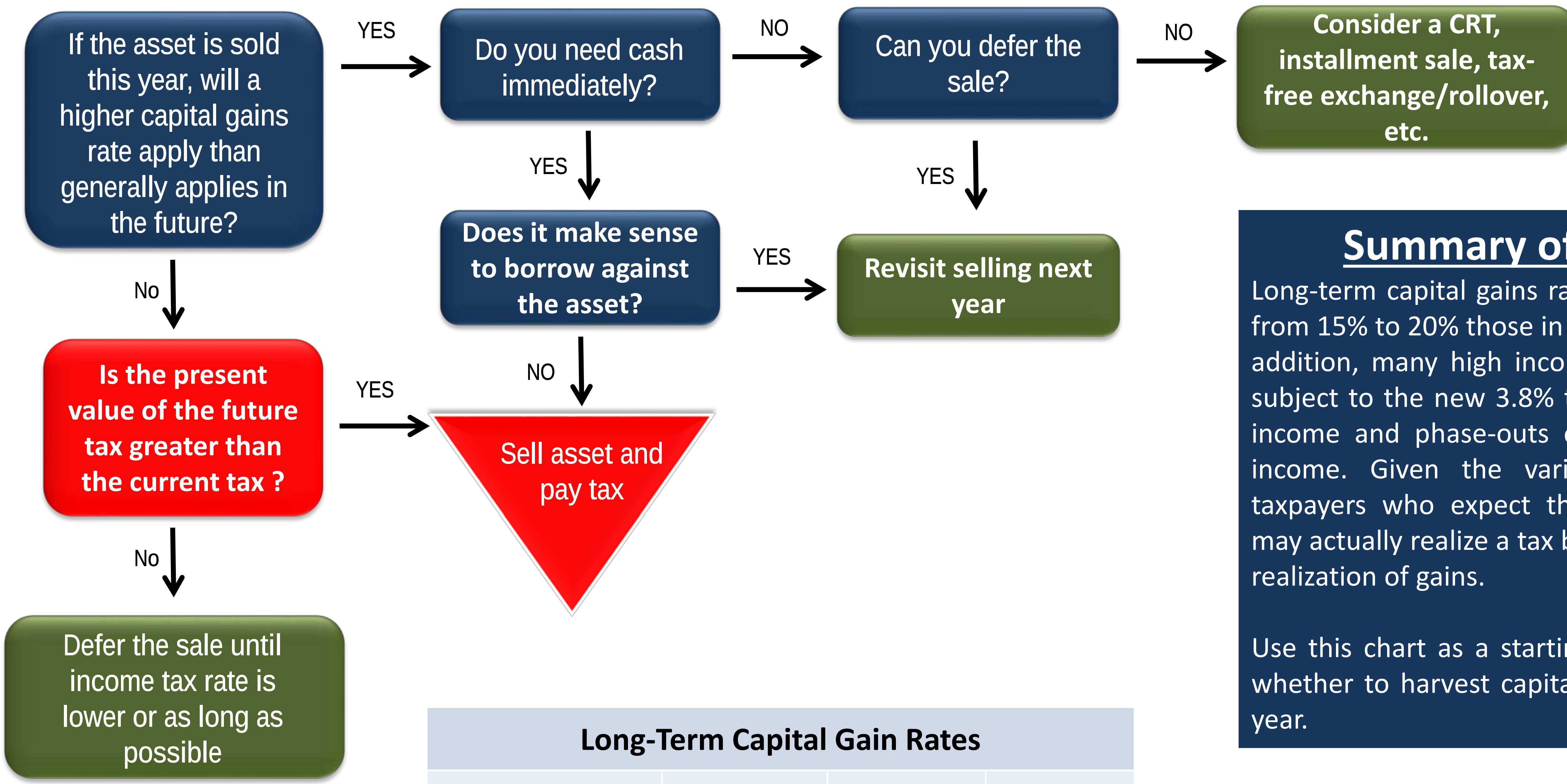
The 2018 Capital Gains Harvesting Chart



Summary of Concept

Long-term capital gains rates increased in 2013 from 15% to 20% those in the top tax bracket. In addition, many high income taxpayers may be subject to the new 3.8% tax on net investment income and phase-outs of deductions against income. Given the varied tax rates, many taxpayers who expect their rates to increase may actually realize a tax benefit by accelerating realization of gains.

Use this chart as a starting point for analyzing whether to harvest capital gains in the current year.

Long-Term Capital Gain Rates

	Single	Married	Trusts
0%	$0 – $38,600	$0 – $77,200	$0 – $2,600
15%	$38,601 – $425,800	$77,201 – $479,000	$2,601 – $12,700
20%	>$425,800	>$479,000	>$12,700

Important Thresholds

	Single	Married	Trusts
3.8% NIIT (MAGI)	$200,000	$250,000	$12,500
§199A Limits (Taxable Income)	$157,500	$315,000	$157,500

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The 2018 Capital Gains Harvesting Chart

Gain Harvesting Scenarios:

John purchased a stock in XYZ Corp. in November 2017, but will need to sell to use the cash in early to mid 2018.

- From a tax perspective, John should not sell. Since the stock was purchased recently (<1yr), selling now would generate a short-term capital gain, taxed as ordinary income.

Steve and Katie have combined taxable income of $50,000. They will have a need to sell assets for cash in 2018.

- Steve and Katie should take gains at least up to the top of the 0% bracket ($77,200 for married couples) and pay $0 in tax on the gains.

Jim and Mary are retired, but are not yet collecting Social Security. The taxable portion of their Social Security income will bump them into the 22% tax bracket.

- Jim and Mary should sell assets to “fill up” the 0% tax bracket and get a “free” basis increase.

Patrick does not plan to retire for another seven years. He has no cash needs beyond what his current salary provides. He is in the 24% tax bracket, so he would pay 15% capital gains tax in 2018.

- Patrick should not sell any assets in his investment account as the ROI on the 2018 Gain Harvesting strategy will have diminished by the time he needs cash in retirement.

Chris has greater than $250,000 in salary income in 2018, and would like to sell stock with a low basis. He plans to retire at the end of 2018.

- Chris should defer selling the low basis stock in 2018. If he sold now, Chris would be subject to the 3.8% NIIT, therefore paying 18.8% tax rate on capital gains. If he can wait until 2019, when he has no salary income, he could be taxed much less.

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Gain Harvesting Return on Investment (after-tax)

		2018	Future	2019	2020	2021	2022	2023	2024	2025
Growth Rate	4.0%	0.0%	15.0%	371.76%	116.42%	66.90%	46.55%	35.54%	28.66%	23.95%
State Tax	4.0%	0.0%	18.8%	466.91%	137.42%	77.62%	53.62%	40.80%	32.84%	27.43%
		0.0%	20.0%	496.96%	143.68%	80.75%	55.66%	42.30%	34.03%	28.42%
		0.0%	23.8%	592.11%	162.51%	90.01%	61.65%	46.70%	37.50%	31.28%
		15.0%	18.8%	16.91%	6.63%	3.34%	1.68%	0.65%	-0.08%	-0.64%
		15.0%	20.0%	23.28%	9.60%	5.32%	3.20%	1.90%	1.00%	0.33%
		15.0%	23.8%	43.43%	18.50%	11.15%	7.60%	5.50%	4.09%	3.06%

		2018	Future	2019	2020	2021	2022	2023	2024	2025
Growth Rate	8.0%	0.0%	15.0%	368.52%	114.83%	65.58%	45.31%	34.31%	27.39%	22.64%
State Tax	4.0%	0.0%	18.8%	448.78%	132.82%	74.88%	51.51%	38.98%	31.17%	25.83%
		0.0%	20.0%	493.92%	142.35%	79.70%	54.69%	41.35%	33.08%	27.43%
		0.0%	23.8%	589.22%	161.34%	89.10%	60.82%	45.90%	36.70%	30.47%
		15.0%	18.8%	13.82%	3.52%	-0.02%	-2.02%	-3.48%	-4.75%	-5.99%
		15.0%	20.0%	20.24%	6.62%	2.15%	-0.27%	-1.94%	-3.31%	-4.57%
		15.0%	23.8%	40.54%	15.89%	8.45%	4.73%	2.37%	0.65%	-0.76%

The Gain Harvesting strategy involves selling a security in the current year and reinvesting the proceeds in the same stock or a similar asset class. This strategy does not call for a "move to cash." From a financial perspective, nothing changes except that stock is sold and a gain is triggered at the current tax rate.

The results show the return on investment (ROI) if you harvest a gain in the current year and then sell again in subsequent years versus doing nothing now and selling in the later year when cash is needed. Essentially, you’re buying a future savings in taxes by taking the gain in the current year. This illustrates the rate of return on the tax savings that you have “purchased.” The ROI numbers for years beyond next year are a Compound Annual Growth Rate (CAGR) taking yearly compounding into consideration.

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