How do I use losses to offset gains? (Capital Gains Estimator)

If you find that your proposed sales are raising your tax liability to unacceptable levels, but you need to sell in order to raise cash (for example, for a down payment on a house), you may be able to offset some of your capital gains with capital losses.

There are two methods you can use when you want to offset some of your capital gains.

- **Carry forward losses from a previous year**
  If you have losses from a previous year that you want to carry forward to offset current-year capital gains, you can include the losses in your proposed sale.

  1. In the **Capital Loss Carryovers** window, enter any investment losses you couldn't deduct in prior years, which you want to use now to reduce your capital gains.
  2. You can use Tax Planner values for your loss carryover (the default) or click Enter different values and enter the amounts of short-term and long-term loss that you want to carry over.

  Remember that you can only deduct up to $3000.00 of any losses from previous years to your current-year gain. In addition, losses from selling short-term holdings will first offset current short-term gain, losses from selling long-term holdings will first offset current long-term gain, and so on, and the entire gain of a particular type must be offset before any remaining loss is applied to anther type of gain.

  - **Example**
    You have $2500.00 in short-term losses from a previous year to apply to current gains. You want to apply these losses to $2000.00 in short-term gains and $1000.00 in long-term gains. You must offset the $2000.00 of short-term gain with your short-term losses first, leaving $500.00 remaining to offset half the amount of your $1000.00 in long-term gain, and leaving you with a remaining $500.00 in long-term gain.
- **Sell some assets at a loss this year**
  If the sale price for your proposed sale is less than your cost basis, you may be able to deduct some of your capital losses from your capital gains when you file your taxes.

  The Capital Gains Estimator can notify you when individual sales result in losses by displaying the gain /loss amount in red. The Capital Gains Estimator will net your gains and losses and apply the Capital Loss limitation rules in calculating your estimated tax amounts. Any loss you can't deduct from your income this year can be carried forward to next year.

  If you chose to use Tax Planner Rates in the Tax Rates window, the Capital Gains estimator includes year-to-date capital gains and losses when calculating the total gain and tax impact of your proposed sales.

  The Capital Gains Estimator provides only an estimate of the taxable gain/loss and the tax impact of a proposed sales scenario.

  - **Example**
    You're single and your taxable income is $26,200. That puts you just within the 15 percent federal income tax bracket. You sell the Winner stock you bought six months ago for a gain of $5,000. What does this do to your tax situation? Would it help if you sell the LoserCo stock you bought three months ago for a $5,000 loss?

	Sell WinnerCo only	Sell LoserCo, too	Sell LoserCo one year later
Estimated taxable income	$31,200	$26,200	$31,200
Estimated Fed Income Tax from these stock sales	$1,394	$ 0	$994
Marginal Income Tax Bracket	28 percent	15 percent	28 percent this year, 15 percent next year
Tax Saved	n/a	$1,394	$450

    It looks like the most sensible thing to do is to sell LoserCo this year to offset the gain from WinnerCo.

    But, you may know something that contradicts this. Do you expect LoserCo stock to become more valuable? (Would it make more sense to hold onto it?)

Notes

- Estimating can lead to costly miscalculations in the timing of the stock sales. Carefully estimate your taxable income for the year.
- Tax savings resulting from offsetting your capital gains serves to replace only a portion of the money you lose when you sell a security for less than the purchase price.
- There may be good reasons to hold onto that stock that has lost some value.
- There are many variables when trying to plan ahead for taxes and security sales. Tax laws are subject to change, and the security you're thinking of selling could change significantly in value. You may wish to consult a tax professional.