Forbes

12 Ways To Beat Capital Gains Tax In The Age Of Trump

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June 20, 2018

Got capital gains? Don't fret. Under the Trump tax overhaul, effective as of tax year 2018, most of the old tricks to avoid or reduce the capital gains tax bite on sales of appreciated assets still work, albeit with tweaks. "The zero-percent capital gains rate is a terrible thing to waste," says Timothy Wyman, a certified financial planner in Southfield, Michigan.

But what's really got wealth advisors and their rich clients excited is a powerful new triple-tax-efficient play, investing in low-income neighborhoods designated as opportunity zones. "It's a big one," says Jayson Morgan, a tax partner at Marcum in Irvine, California.

Here are 12 planning ideas. We're talking about long-term capital gains, that is net profits on investments held more than a year. Short-term gains are taxed at ordinary income tax rates. If you've got gains, you'll likely want to choose more than one strategy.

Opportunity Zones. Investors in "opportunity zones" (via a fund or direct investment in real estate or companies located there) get temporary deferral of accumulated capital gains, up to a 15% basis step-up on capital gains invested, and here's the kicker—a capital gains bill of zero on new gains for investments held 10 years. The IRS just announced the final round of Opportunity Zones and has published FAQ. The goal is to get capital to struggling low-income census tracts, but the Brookings Institution explains here how affluent areas like those surrounding Stanford, Harvard, or Georgetown qualify.

Manage Tax Brackets And Harvest Gains. The planning for most taxpayers lies in capturing the zero-percent rate. The capital gains tax rates are the same under the new tax law, just now they have their own brackets. For 2018, a couple can have up to $77,200 in taxable income (add on the $24,000 standard deduction, and it's over

$100,000) to snag the zero-percent capital gains rate. Next, there's a 15% rate and at over $479,000 for a couple, there's a top 20% capital gains tax rate, but watch out because an additional 3.8% net investment income tax kicks in for couples with $250,000 of income. So, in practical terms, there's also an 18.8% rate, and the top rate is really 23.8%.

Don't forget state capital gains taxes in your calculations. In California with its top 13.3% rate, you can get a 37.1% total capital gains tax bite. "It's a significant number," says Morgan. Even worse, the new tax law limits the state and local tax deduction, so the state bite becomes more taxing.

What does this mean in practice? Steve Bigge, a CPA in Green Bay, Wisconsin, has a recent retiree client, with a concentrated position of stock he wants to get out of because he's getting bearish. In an abnormally low-income tax bracket because his pension and deferred compensation haven't started kicking in, he's selling $350,000 of stock with $120,000 of built-in gain, recognizing $40,000 of gain a year. He'll owe zero percent on half of that and 15% on half, for an effective rate of 7.5%. "We try to use as much of the zero-percent bracket as we can," Bigge says.

You can sell winning investments to use up the 0% and/or 15% capital gains brackets and rebuy the same stock to reset the basis. Just watch out that you're not bumping up against the 3.8% NIIT, warns Bigge.

Harvest Losses. Consider selling losers in your portfolio to offset any gains. If your losses are greater than your gains, you can deduct up to $3,000 a year against your ordinary income, and carry over any excess to future years.

Family Gifts. You can make annual exclusion gifts of up to $15,000 per individual each year. If you give highly appreciated stock to your child or parent, she takes your low basis, but when she sells it—if she's in a lower bracket—her capital gains rate is 0%. That could mean the family saves a 23.8% tax bill. Wyman has grandparents using this technique to help their granddaughter through medical school. A 70-something couple use it to leverage gifts to their 50-something kids. "It's just a way to make your dollars go longer," he says. Watch out: If the child is under 24, the new tax law applies trusts tax rates to "kiddies" (see The Kiddie Tax Grows Up).

Gifts To Charity. Under the tax overhaul, 61% fewer taxpayers will claim itemized deductions, including the charitable deduction. But giving appreciated stock to charity still works to avoid capital gains tax. One solution to get both breaks is to put a multiple of your typical annual gifts into a donor-advised fund (that counts as a charitable gift, but you grant out the money later). Wyman just helped a soon-to-be-retired client who used to give $5,000 a year to charity, but wouldn't get the income

tax deduction for a $5,000 gift in 2018. So instead, he transferred $50,000 of appreciated securities into a donor-advised fund. He'll get the income tax deduction for the fair market value of the stock and have no capital gains tax hit. (For more charity strategies, see Charity In The Age Of Trump: How To Maximize Impact And Minimize Taxes.)

Buy And Hold. Die with appreciated stock and your heirs get an automatic step-up in basis to its current market value at the date of your death, so you escape capital gains tax.

1031 Exchange. The tax overhaul limits this capital gains deferral strategy to real estate assets only. You roll all the capital gains from the property you're selling into a new property, which takes on the old property's low basis, keeping money working for you that would have gone to pay taxes.

Invest In Your Primary Residence. The House version of the tax overhaul limited this big break, but it ended up intact in the final version of the law. Individuals can exclude up to $250,000 of gain in their primary residence. Married couples get a $500,000 exclusion. Keep receipts of capital improvements like a new roof or soaking tub that add to your home's cost basis.

Go Roth. Stuff aftertax money into a Roth IRA or Roth 401(k), and all future growth and distributions are tax-free (i.e., no capital gains tax).

Save For College With A 529. The money you stash in a 529 college savings plan grows tax-free and withdrawals for education expenses are tax-free (i.e., no capital gains). The tax overhaul expanded these plans to cover K-12 expenses, but check if your state follows federal tax treatment for K-12 withdrawals, or you could be hit with a state capital gains tax bill.

Max Out An HSA. A health savings account saves you money even if you pull funds out to pay for healthcare expenses right after making contributions. Even better: Use the investment option to save for future healthcare expenses in retirement. The money goes in pretax, grows tax-free, and comes out tax-free. Check out the 10 supersavers with $200,000-plus health savings accounts at HealthEquity.

Move To A Tax-Friendly State. If you might move soon to a state without an income tax, such as Florida or Nevada, consider holding off on a sale that would otherwise trigger state capital gains tax.