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How Retirees May Be Able to Use Capital Gains More Tax-Efficiently

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When you think about retirement taxes, you may naturally focus on income from Social Security, pensions, IRA withdrawals, or other retirement accounts.

But there is another area that deserves attention — **capital gains**.

If you own stocks, mutual funds, investment property, or other appreciated assets, selling those investments can create a taxable gain. How and when those gains are realized can affect the amount of tax you ultimately pay.

For some retirees and investors, the key isn't simply whether they have a capital gain. It may be **when they choose to realize it and what their overall taxable income looks like that year**.

That is where understanding the rules around long-term capital gains can become an important part of retirement tax planning.



Short-Term vs. Long-Term Capital Gains

The first step is understanding the difference between short-term and long-term gains.

Generally, if you sell an investment that you have owned for **one year or less**, the resulting gain is considered a short-term capital gain. Short-term gains are generally taxed at ordinary income tax rates.
Long-term capital gains generally apply when an investment has been held for **more than one year**.

These gains may qualify for preferential federal tax rates. For federal income tax purposes, long-term capital gains generally fall into three tax-rate categories: **0%, 15%, and 20%**, depending on your taxable income and filing status.

That distinction can create planning opportunities — particularly during retirement, when your taxable income may change significantly.

Could Some Long-Term Capital Gains Be Taxed at 0%?

Many people are familiar with the 15% long-term capital gains rate.

Far fewer realize that, under certain circumstances, **some long-term capital gains may fall into the 0% federal capital gains tax bracket**.

Importantly, the 0% rate does not mean there is a blanket exemption from capital gains taxes. Rather, it means that taxpayers whose taxable income falls within the applicable threshold may be able to realize a certain amount of qualifying long-term capital gains without paying federal tax on that portion of the gain.

The applicable thresholds change over time, and state tax treatment can be different from federal treatment.

That's why capital gains planning should always be based on the tax rules applicable to your specific situation and year.





What Is "Filling the Bracket"?

One concept worth understanding is often referred to as **"filling the bracket."**

The basic idea is to look at your projected taxable income for the year and determine how much room may remain within a particular long-term capital gains tax bracket.

For example, suppose a retiree has relatively modest taxable income because they have stopped working and are using a combination of Social Security, cash reserves, and investment accounts to meet their expenses.

They may have an opportunity to realize some long-term capital gains while remaining within a lower capital gains tax bracket.

The goal isn't necessarily to sell everything or generate as much taxable gain as possible. Instead, it is to ask:

"How much capital gain can we realize this year while keeping the overall tax impact as efficient as reasonably possible?"

That is a very different approach from simply waiting until an investment needs to be sold.

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Retirement Can Create a Unique Tax-Planning Window

Retirement often changes the tax picture dramatically.

During your working years, your salary or business income may place you in a relatively high tax bracket. After retirement, that earned income may disappear or decline substantially.

At the same time, your spending needs may not decline nearly as much.
This creates an interesting planning opportunity.

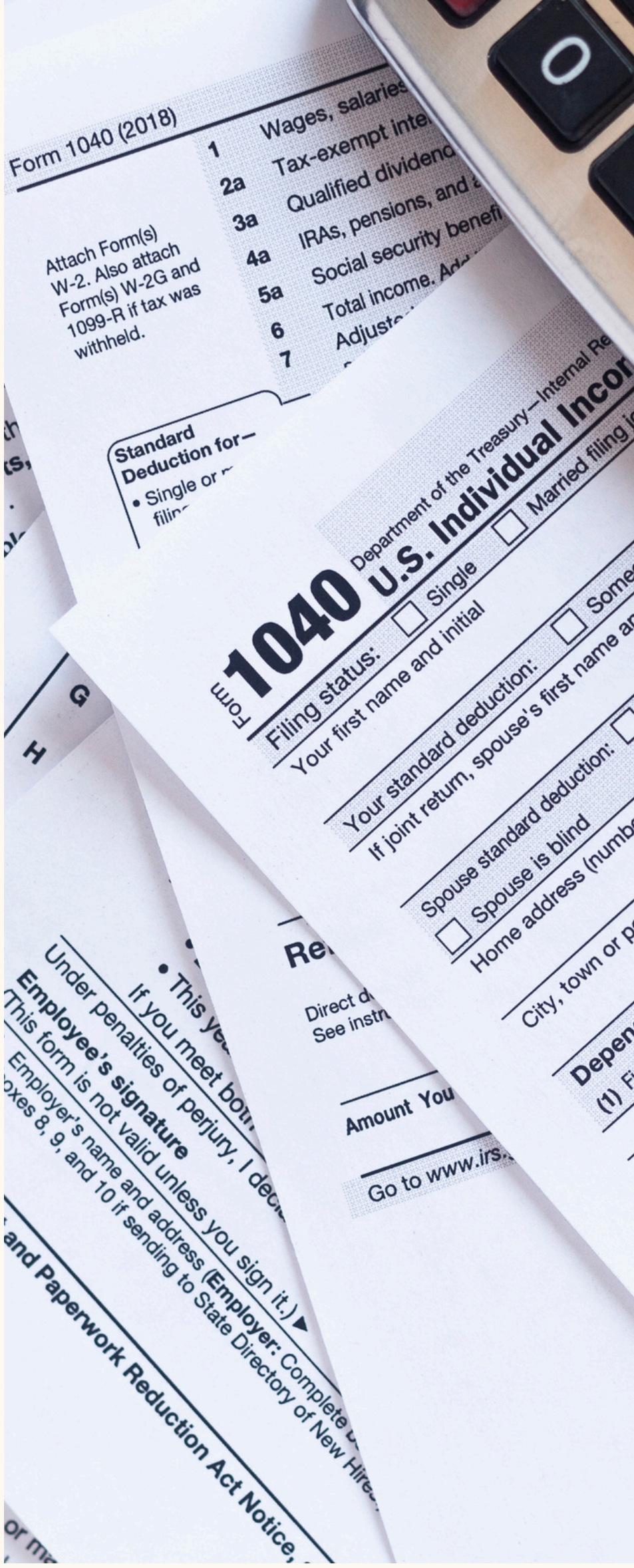
You may have years in which you are living comfortably but showing substantially less taxable income than you did while working.

Those years may provide an opportunity to evaluate:

- Long-term capital gains
- Roth conversions
- IRA distributions
- Social Security taxation
- Investment income
- Charitable giving
- Other strategies that can affect your taxable income

The important point is that **retirement tax planning shouldn't necessarily begin when you file your tax return**.

It should begin by looking ahead.



The First Year of Retirement May Be Especially Important

The year you retire can be particularly interesting from a tax-planning perspective.

If you retire early in the year, you may have significantly less earned income than you had in previous years. If you have sufficient cash reserves or taxable investment assets to help fund your lifestyle, you may have more flexibility in deciding which assets to sell and when.

That could create an opportunity to evaluate whether realizing long-term capital gains makes sense before the end of the tax year.

But this needs to be coordinated with the rest of your financial picture.

A capital-gains strategy that looks attractive in isolation may not be attractive once you consider the effect on your total income, Medicare premiums, deductions, credits, or other tax considerations.





What About People With Higher Incomes?

You might assume that these strategies are only relevant to people with relatively low incomes.

Not necessarily.

Higher-income households may still encounter years when their taxable income changes.

For example:
The year someone retires
A year with unusually high deductions
A year when business income declines
A year with significant charitable giving
A year when certain income sources temporarily decrease
A year when investment losses offset gains

These changes can create different tax-planning opportunities from one year to the next.

This is one reason we believe retirement planning should be **forward-looking rather than simply reactive**.

Capital Gains Don't Necessarily Push Your Ordinary Income Into a Higher Bracket

Another common question is whether realizing long-term capital gains automatically pushes your ordinary income into a higher ordinary-income tax bracket.

The interaction between ordinary income and capital gains is more nuanced than simply adding the two numbers together and applying one tax rate to everything.

Long-term capital gains generally receive preferential tax treatment, but the amount of capital gain you realize can still affect your overall taxable income and other aspects of your tax situation.

That's why looking at the entire tax picture is so important.





Your Capital Gains Strategy Should Fit Into Your Retirement Plan

At WMS Retirement Solutions, we don't view capital gains planning as an isolated tax strategy.

It should fit into the broader retirement plan.

For example, if you have a taxable investment account, we may want to understand:

Which investments are you likely to sell?
What is your cost basis?
How much unrealized gain exists?
When might you need the money?
What other sources of income will you have that year?
How might a sale affect your tax situation?
Are there other assets that could be used instead?

The answers can help determine whether realizing a gain now, later, or gradually over multiple years may make sense.

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Don't Let Tax Planning Become an Afterthought

One of the biggest retirement-planning mistakes can be looking at taxes only after a financial decision has already been made.

Selling a highly appreciated investment, taking a large IRA distribution, converting retirement assets to a Roth IRA, or realizing substantial capital gains can all have consequences beyond the transaction itself.

For that reason, we encourage clients to coordinate closely with their CPA or other qualified tax professional.

A financial advisor can help integrate tax considerations into the retirement strategy, while your tax professional can evaluate the specific tax consequences and provide tax advice.



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The Bigger Retirement Planning Question

The goal isn't simply to pay the lowest possible tax bill this year. The bigger question is: *How can you make informed decisions about your money today while keeping your overall retirement strategy on track for the years ahead?*

Capital gains may be one piece of that puzzle. For some retirees, strategically managing when gains are realized may create opportunities for greater tax efficiency. For others, realizing a gain may not make sense based on their income, goals, investment strategy, or other circumstances.

That's why the right question isn't simply: "How much tax will I pay?"
It may be: "How does this decision fit into my overall retirement income, investment, and tax strategy?"

At WMS Retirement Solutions, we believe retirement planning should look at the ***bigger picture*** — including Income, Growth, Taxes, Long-Term Care, and Legacy Planning — so that individual financial decisions work together rather than in isolation.

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