

## Do I Have to Pay Taxes on Gains From Stocks?

If you enjoyed stock market success in 2020, you might owe the IRS. Here's our quick, easy guide to paying taxes on your stock gains.

by: **Charles Lewis Sizemore, CFA**  
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2020, for all of its chaos and upheaval, ended up being a fantastic year for many investors, and particularly first-time investors. But now that we've entered tax season, a great many of them are finding that they have to pay taxes on the wild gains from their stocks.

The [\*Wall Street Journal\* reported](#) that more than 10 million new brokerage accounts were opened last year. It's not hard to see why. When popular stocks like Tesla ([TSLA](#)) are rising by more than a factor of 10 since March, who wouldn't want a piece of that action?

If the first month of 2021 is any indication, the party for individual investors may be just beginning. Americans are spending more time at home due to virus restrictions, they have a little more cash than usual in their pockets due to stimulus checks, interest rates are effectively pegged at zero and alternatives are sparse. With those conditions in place, we're likely to see more new investors flocking to the market this year.

Let's say you're one of those new investors. You might be sitting pretty if you happened to catch some of the highfliers on their way up. But you should also know that if you earned those gains outside of a tax-advantaged account, such as an a 401(k) or IRA, you're likely going to have to pay taxes on your stock gains, known as **capital gains taxes**.

Today, we're going to cover some basic tax questions for those readers that might be enjoying stock market gains for the first time.

But first, a note: The IRS really isn't out to get you. If they catch a mistake or a failure to report income, they'll zing you. But if you're honest and make a legitimate attempt to follow the rules, they're not going to rake you over the coals.

With that out of the way, let's go over three common questions:

## **How Do I Know If I Have to Report?**

If you sold any stocks, bonds, options or other investments in 2020, then you will need to report it on your tax return on Schedule D. TurboTax and other mainstream tax preparation software vendors will generally do this for you after asking you to input some data.

If you sold stocks at a profit, you will owe taxes on gains from your stocks. If you sold stocks at a loss, you might get to write off up to \$3,000 of those losses. And if you earned dividends or interest, you will have to report those on your tax return as well.

However, if you bought securities but did not actually sell anything in 2020, you will not have to pay any "stock taxes."

## **Will My Broker Give Me a Form?**

In a word: yes.

If you sold any investments, your broker will be providing you with a 1099-B. This is the form you'll use to fill in Schedule D on your tax return. The beauty of this is that it's generally plug-and-play. Everything you need can be ripped right off of the 1099-B and inputted into the tax return.

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