faith . discipline . patience

Over the next few weeks many of you may receive year-end tax reports for your accounts describing what you should include on your 1040.

The way the stock markets have gone up the last few years you may see significant capital gains reported.

However, if you've owned an investment for more than one year before selling you may still avoid taxes. If your taxable income for 2021 is below $40,400/$80,800 (filing single/married jointly) the federal tax rate on long-term gains is zero.

These limits were raised to $41,675/$83,350 for 2022.

If you own mutual funds and leave them alone you may be surprised to see capital gains reported on your account tax form. "This can't be right. I never sold anything, I just reinvest whatever dividends and interest payments I receive."

Well, just because you did not buy or sell the mutual fund manager you hired likely did so throughout the year.

Traditional mutual funds are required to distribute realized gains no less than annually.

This forced taxable gains is one reason some investors use Exchange Traded Funds (ETFs) which typically, but not always, do not cause realized gains unless the owner herself sells the shares.

Traditional index funds typically pay little gains as most index funds do not buy and sell securities too often throughout the year.

As always, if you're in the habit of giving to non-profit organizations I encourage you to consider gifting appreciated securities.

This way, you do not realize gains since you do not sell.

Meanwhile, the non-profit will be able to sell the securities without owing gains taxes, and you may still be able to deduct the gifted amount when you file your taxes.

Just be careful so you don't let the tax tail wag the investment dog. An appropriate investment strategy may include capital gains.

Good luck.

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