

START SAVING ON RI CAPITAL GAINS – by Norman L. LeBlanc, CPA

Beginning in 2007 and expanding in 2008 RI taxpayers with long term capital gains can begin enjoying lower tax rates.

In 2001 a RI general law was passed that reads:

For tax years beginning in 2007, the capital gains rates for assets held more than five years is 8.33% of the federal capital gains rates in effect prior to the enactment of the Federal Economic Growth and Tax Reconciliation Act of 2001.

Worded in plain English this means that capital gain assets sold after January 1, 2007 - if owned before January 1, 2002 - will be taxed at a rate of 1.67% ($8.33\% \times 20\%$). In 2006 the capital gain rate was 5%, a lowering of 3.33% ! On a \$100,000 gain you will now pay only \$1,670 in tax instead of the \$5,000 due under the old law.

More good news ! In 2008 the capital gain rate will be reduced to zero on assets owned before January 1, 2003.

Planning tip: If you are expecting a gain and have the luxury of postponing the sale date -- a closing in 2007 or 2008 could add up to substantial tax savings. Remember this is only available on assets owned 5 years or more. Assets held less than 5 years but more than one year will still be taxed at 5%. On all gains, the recapture rules are still in effect for depreciation and Section 179.

Please contact us if you have any questions or need a tax projection for your pending sale.