



Shift income to take advantage of the 0% long-term capital gains rate

Are you thinking about making financial gifts to loved ones? Would you also like to reduce your capital gains tax? If so, consider giving appreciated stock instead of cash. You might be able to eliminate *all* federal tax liability on the appreciation — or at least significantly reduce it.

Leveraging lower rates

Investors generally are subject to a 15% tax rate on their long-term capital gains (20% if their income exceeds certain thresholds). But the long-term capital gains rate generally is 0% for gain that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate.

In addition, taxpayers with modified adjusted gross income (MAGI) over \$200,000 (\$250,000 for married couples filing jointly and \$125,000 for married filing separately) may owe the net investment income tax (NIIT). The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold.

If you have loved ones in the 0% bracket, you may be able to take advantage of it by transferring appreciated assets to them. The recipients can then sell the assets at no or a low federal tax cost.

Case study

Faced with a long-term capital gains tax rate of 23.8% (20% for the top tax bracket, plus the 3.8% NIIT), Ed and Nancy decide to transfer some appreciated stock to their adult granddaughter, Emma. Just out of college and making only enough from her entry-level job to leave her with \$30,000 in taxable income, Emma qualifies for the 0% long-term capital gains rate.

However, the 0% rate applies only to the extent that capital gains “fill up” the gap between Emma’s taxable income and the top end of the 0% bracket. For 2025, the 0% bracket for singles tops out at \$48,350 (just \$125 less than the top of the 12% ordinary-income tax bracket).

When Emma sells the stock her grandparents transferred to her, her capital gains are \$20,000. Of that amount \$18,350 qualifies for the 0% rate and the remaining \$1,650 is taxed at 12%. Emma pays only \$198 in federal tax on the sale vs. the \$4,760 her grandparents would have owed had they sold the stock themselves.

More to consider

If you’re contemplating a gift to anyone who’ll be under age 24 on December 31, check whether they’ll be subject to the “kiddie tax.” Also consider any gift and generation-skipping transfer (GST) tax consequences. We’d be pleased to answer any questions you have. We can also suggest other ways you can reduce taxes on your investments.