CPA
Practice Advisor



As the time for the stock exchange to close business on December 31 nears, you pull the trigger on the transaction, just getting it in under the wire. Will the result

Dec. 18, 2014

Suppose you need to sell stock to realize a capital gain or loss at the end of the year. As the time for the stock exchange to close business on December 31 nears, you pull the trigger on the transaction, just getting it in under the wire. Will the resulting



However, there's a slightly different rule in play for short sales. As far as the IRS is concerned, a loss from a short sale is treated as if occurred on the settlement date (i.e. the date funds are actually delivered) – not the trade date. If a short sale is executed on or around December 31 and the settlement date falls into 2015, the loss can't be used to reduce your 2014 tax liability. Advise clients of this little-known wrinkle in the tax law and to plan accordingly.

Conversely, if you arrange a short sale resulting in a capital gain, the IRS says that the sale will still be treated as occurring on the trade date. That means you might have to report a capital gain in 2014 that you had hoped to defer to 2015. Watch out for this potential tax trap.

In addition, clients should keep an eye on the "wash sale" rule at the end of the year. Under this rule, you can't deduct a loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. Practical advice: Don't buy back the same stock you sold less than a month ago if it will cause you to forfeit a valuable loss.

Finally, remember that the holding period to qualify for special treatment as a capital gain is a year and a day. For this purpose, begin counting on the day after the date you acquired the property and finish on the day that you sell it. It may make sense to postpone a sale for a few days to qualify for long-term gain treatment. Of course, taxes aren't the be-all and end-all, but they are an important consideration in investment decisions.

Income Tax • Taxes