Short-Term vs. Long-Term Capital Gains

Dori Zinn October 17, 2024

When you sell something, you're probably looking to profit from it. Capital gains are profits from an asset sale, like your home, business or stocks. Capital gains come in two different forms: long-term and short-term. Each faces a different tax consequence, making it important to know the difference between short-term vs long-term capital gains taxes. Short-term gains are taxed as ordinary income while long-term gains are taxed at a lower rate. To understand how these capital gains might impact your assets and personal tax situation, consider working with a financial advisor who specializes in taxes.

What Are Short-Term Capital Gains?

Profits from an asset sold within a year of buying it are short-term capital gains. As a result, they're taxed as regular income according to your tax bracket, ranging from 10% to 37%. This is considered ordinary income since the asset isn't held for a very long period of time. Let's take a look at the tax, depending on the bracket that you personally fall into.

For 2024, the tax bracket looks like this:

Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 – $11,600	$0 – $23,200	$0 – $11,600	$0 – $16,550
12%	$11,601 – $47,150	$23,201 – $94,300	$11,601 – $47,150	$16,551 – $63,100
22%	$47,151 – $100,525	$94,301 – $201,050	$47,151 – $100,525	$63,101 – $100,500
24%	$100,526 – $191,950	$201,051 – $383,900	$100,526 – $191,950	$100,501 – $191,950
32%	$191,951 – $243,725	$383,901 – $487,450	$191,951 – $243,725	$191,951 – $243,700
35%	$243,726 – $609,350	$487,451 – $731,200	$243,726 – $365,600	$243,701 – $609,350
37%	$609,350+	$693,750+	$365,600+	$609,350+

What Are Long-Term Capital Gains?

Profits from assets held for a year or more are long-term capital gains. The extra time you've held onto those assets could help you come tax season. Long-term capital gains are taxed at 0%, 15% and 20% depending on your taxable income. As a result, they might put you in a different tax bracket compared to short-term capital gains. For example, if you earn $100,000 a year, you're in the 15% tax bracket. For short-term capital gains, you'd be at 24%. But your gains and losses will determine which bracket or brackets you fall into.

Here are the long-term capital gains tax rates for 2024:

Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
0%	$0 – $47,025	$0 – $94,050	$0 – $47,025	$0 – $63,000
15%	$47,026 – $518,900	$94,051 – $583,750	$47,026 – $291,850	$63,001 – $551,350
20%	$518,900+	$583,750+	$291,850+	$551,350+

What Are Capital Losses?

Almost everything you own relates to a capital asset. Capital gains are what you earn over a certain amount of time. However, there's also a chance you had a capital loss. A capital loss is money you've lost through your investments and assets.

You can use those losses to lower your tax rate since losses offset gains. You'll be able to determine how much you owe in taxes by calculating your "net" gains or losses. If your losses are more than your gains, you can deduct the difference on your tax return, up to $3,000 a year. This strategy is often called tax loss harvesting.

Key Difference of Short Term vs. Long Term Capital Gains

There are some differences when looking at both types of capital gains, but the most important difference is how each is taxed. Short-term capital gains result from selling a good or asset that you own for one year or less. Long-term capital gains are taxed at a more favorable rate because you're selling an asset that you've held for longer than one year.

Short-term capital gains are taxed as ordinary income while long-term gains are taxed at a significantly lower rate, in many instances. The total amount of tax savings will depend on what tax bracket you would fall into with a short-term gain, as seen above.

How to Lower Your Capital Gains

There are a few ways to offset capital gains taxes. They include:

- **Holding assets for more than a year:** Even if you did nothing else but own your assets for longer than a year, you could end up paying less by moving to a different tax bracket.
- **Utilizing your retirement accounts:** IRAs, 401(k)s and 529 plans allow investments to grow tax-free or tax-deferred. If your retirement account sells investments, you're not on the hook for capital gains tax. Contributions to health savings accounts (HSAs) are also tax-free and assets grow tax-free.
- **Carrying over your loss to the next year:** Losses cap out at $3,000 a year. As a result, you can carry over the rest to the next year and claim it on that year's tax return.

Bottom Line

The difference between short-term and long-term capital gains could be the difference between a big tax bill and a smaller one. When buying and selling assets, consider how long you've owned them and how much tax you'll pay on them in the near future. Short-term capital gains consist of profits from an asset sold within a year of purchase. They face a tax rate similar to regular income, between 10% and 37%. However, if you hold onto assets for a year or more, they're long-capital gains. Taxes on those gains top out at 20%, but may be as little as 0%. Meanwhile, if you take a capital loss, you can either deduct the loss this year or carry it over into a year when you make more income.

Investment Tips

- Making sure your money is working hard for you isn't always the easiest task. A financial advisor can help you calculate gains and losses to minimize what you owe. SmartAsset's free tool matches you with up to three financial advisors who serve your area, and you can interview your advisor matches at no cost to decide which one is right for you. If you're ready to find an advisor who can help you achieve your financial goals, get started now.
- If you haven't already, you might want to sign up for a robo-advisor. Many robo-advisors offer tax-loss harvesting, which sells investments that are hurting your portfolio and helps offset what you earn from the gains.
- If you're just looking for an easy way to figure out your capital gains taxes, there are tools that can help you. For example, SmartAsset's capital gains tax calculator, can help you determine what you've gained or lost this year and what taxes you'll pay (if any).

Dori Zinn has been covering personal finance for nearly a decade. Her writing has appeared in Wirecutter, Quartz, Bankrate, Credit Karma, Huffington Post and other publications. She previously worked as a staff writer at Student Loan Hero. Zinn is a past president of the Florida chapter of the Society of Professional Journalists and won the national organization's "Chapter of the Year" award two years in a row while she was head of the chapter. She graduated with a bachelor's degree from Florida Atlantic

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