Beginner Tax Module

Taxation Basics

To file taxes each year, an individual must decide what filing status is appropriate for their situation. Most common filing statuses are single and married filing jointly, but head of household, married filing separately, and trusts also exist. You can determine your filing status using the IRS's Interactive Tax Assistant HERE.

You must also add all sources of income to reach your taxable income. Any money you earn is considered income. Any change in income or financial position may affect your taxable income. Buying or selling investments can change the amount of money you owe each taxable year. Your taxable income may span multiple tax brackets. In this situation, you pay the higher rate on only the portion that is within the income range of that higher tax bracket.

The following table outlines the 2025 tax due for single taxpayers spanning across multiple tax brackets. Tax brackets for other filers can be found on the IRS website.

2025 Tax Bracket for Single Taxpayers	
If Taxable Income Is:	**The Tax Due Is:**
$0 - $11,925	10% of taxable income
$11,926 - $48,475	$1,192.50 + 12% of the amount over $11,925
$48,476 - $103,350	$5,578.50 + 22% of the amount over $48,475
$103,351 - $197,300	$17,651 + 24% of the amount over $103,350
$197,301 - $250,525	$40,199 + 32% of the amount over $197,300
$250,526 - $626,350	$57,231 + 35% of the amount over $250,525
$626,351 and over	$188,769.75 + 37% of the amount over $626,350

Capital Gains

A capital gain is any profit made from selling an asset. The tax rate depends on how long you hold the investment. These investments could be stocks, bonds, real estate, or cryptocurrencies.

A short-term gain occurs when you sell an asset you've held for one year or less. This gain would be taxed at your ordinary income tax rate. A long-term gain occurs when you sell an asset that has been held for more than one year. Long-term gains are important, because they result in preferential tax outcomes. These gains are taxed at a lower rate, which results in a lower tax liability. Depending on your taxable income, these gains can be taxed at 0%, 15%, or 20%. The tax is calculated by the amount that exceeds each bracket.

For example, a single filer with taxable income of $50,000 would be taxed at 0% for the first $47,025 of their income and taxed at 15% for the remaining portion of their income. They would effectively be taxed $446 ($2,975 x 15%) due to the $2,975 that exceeds the first bracket.

Refer to the following table to assess your capital gains tax rate:

2025 Capital Gains Tax Rates				
Tax Rate	**Single**	**Married Filing Seperately**	**Married Filing Jointly**	**Head of Household**
0%	$0 - $47,025	$0 - $47,025	$0 - $94,050	$0 - $63,000
15%	$47,026 - $518,900	$47,026 - $291,850	$94,051 - $583,750	$63,001 - $551,350
20%	$518,901 and up	$291,851 and up	$583,751 and up	$551,351 and up

Example 1) If you have a $30,000 yearly salary and made $10,000 from selling long-term investments, your taxable income would be $40,000. If your filing status is single, your capital gains tax rate would be 0%. Therefore, you would not have to pay any tax on profits made through those investments. Instead, imagine you had made $25,000 in profits from selling those long-term investments. In this situation, your capital gains tax rate would be 15% for the income exceeding $47,025. This would result in a tax payment of $2,696 ($65,000 - $47,025 = $17,975 x 15%).

Example 2) You bought a stock for $1,000 and sold it for $1,500 after 11 months, realizing a $500 profit. If your ordinary income tax rate is 22%, you will owe $110 in taxes due to this short-term gain ($500 x 22%). However, if you had held the stock for over a year, your long-term capital gains tax might be lower, depending on your tax bracket.

Capital Losses

A capital loss is a loss incurred from selling an asset. Capital losses can be used to offset capital gains to reduce your tax liability. Currently, up to *$3,000* of capital losses can be used to offset capital gains. Any remaining capital losses can be carried forward indefinitely. This means that these losses can be carried forward to a subsequent tax year to offset capital gains in the future. These losses do not expire and can be effectively carried forward forever.

Example 1) You, a single filer, have a $30,000 yearly salary and made $19,000 from selling long-term investments, but you also incurred a $4,000 loss on a speculative asset. $3,000 of that loss can be used to offset the $10,000 capital gain. Without the capital loss, your taxable income would be $49,000 and you would need to pay $296 in taxes. With the loss, your taxable income would be $46,000 which is wholly in the 0% bracket.

Form 1099-B reports sales of investments from a broker to calculate capital gains and losses.

For further information on capital gains/losses, the following link to the IRS Topic no. 409 goes into more detail. [https://www.irs.gov/taxtopics/tc409]

Unrealized vs. Realized

It is common for stocks and other financial instruments to change value over time. However,this change should only be accounted for once the asset has been sold. Once sold, any profit or loss is fully realized. Prior to sale, any value change is unrealized. Only realized gains or losses can affect your tax situation. A recognized gain is the portion of realized gain that the IRS considers taxable in that year.

Example) If you buy a stock at $100 and later sell it at $120, your realized gain would be $20 and would affect your taxes. If you have not yet sold the stock, the $20 gain would be unrealized and have no effect on your taxes.

Dividends

Dividends are a way for companies to share profits with investors. Not all companies pay dividends, but those that do generally pay on a quarterly basis. A one-time or other special dividend may also be announced. Dividends can also be paid in additional shares and are called a stock dividend. If a company that normally pays dividends stops or delays payments, this is usually a signal to investors that the company is undergoing liquidity issues.

A qualified dividend can be eligible for favorable tax treatment under capital gains rates. To be eligible, the dividend must meet specific holding period conditions. The investor must hold the stock for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (the date an investor must own the stock to receive the dividend). You will receive a Form 1099-DIV from each company that has paid you at least $10 in dividends.

Interest

Certain financial instruments incur interest that is paid to the owner of the asset. Some sources of interest may be derived from savings accounts, certificates of deposit (CDs), and bonds. Generally, any interest received is taxed at the same rate as other sources of income. However, some sources of interest may be tax-exempt and not subject to any tax. These sources include municipal bonds, education savings accounts, and some retirement accounts.

Your financial institution will provide you a Form 1099-INT if you earned $10 or loss in interest during the year. No matter the amount of taxable or tax-exempt interest earned, you are required to report any interest received on your federal tax return. If your taxable interest exceeds $1,500, you must fill out Schedule B.

For further information on interest, the following link to the IRS Topic no. 403 goes into more detail. [https://www.irs.gov/taxtopics/tc403]

Tax Filing

The following table outlines some common tax forms that are important to understand.

Common Tax Forms	
1099 - DIV	Reports dividends, qualified & ordinary
1099 - INT	Reports interest income
1099 - B	Reports gains & losses from securities sales
Form 8949 & Schedule D	Summarizes capital gains & losses
1099 - R	Reports distributions from retirement accounts

How to Minimize Your Tax Liability

One of the most useful ways an investor can maximize their profits is to lower their tax liability. Directly, this can be done by leveraging lower capital gains rates. To do so, investments should be held for over a year to qualify for this preferential treatment.

Additionally, certain investment accounts also induce tax advantages. Accounts such as IRAs and 401(k)s can defer or avoid taxes on investment gains. Consider exploring tax-loss harvesting options, which involve strategically selling investments at a loss. These losses can offset gains made from other investments and can reduce your taxable income.

Videos

Watch a video recap here.

Articles

The following articles elaborate above topics further and may be of interest to you:

- **Capital Gains Tax, Vanguard**
- **Dividend Taxes, Vanguard**
- **Interest Income, SmartAsset**