Beyond Wealth
PARTNERS

Same Income. Different Taxes:

Long-Term Capital Gains vs. Ordinary Income

WHAT IS IT:

→ **Long-Term Capital Gains:** Profit from selling investments held more than 1 year

→ **Ordinary Income:** Wages, interest, pensions, and Traditional IRA/401(k) withdrawals

→ Long-term capital gains generally receive **preferential tax rates**

HOW IT WORKS:

→ Long-term capital gains are taxed at **0%, 15%, or 20%**

→ Ordinary income (ie: IRA withdrawals) is taxed at **10%–37%**

→ Both increase taxable income when calculating total tax

WHY IT MATTERS:

→ The type of income can significantly impact total taxes owed

→ Higher income may affect Medicare premiums (IRMAA)

→ Coordinating withdrawals and investment sales can improve tax efficiency

EXAMPLE:

Assume a married couple shows $120,000 income.

SCENARIO 1:

→ $120,000 of long-term capital gains

→ Federal tax: $0

(Falls within the 0% long-term capital gains bracket)

SCENARIO 2:

→ $120,000 of Traditional IRA distributions

→ Federal tax: $10,040

(Taxed at ordinary income rates after the standard deduction)