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TAX REPORT
 By TOM HERMAN


Don't Ignore Tax Consequences When Making Stock Decisions

How you bite the bullet matters.

If you're smarting from stock-market losses, now may be a good time to swallow your pride and dump those losers. Naturally, it's never smart to sell solely for tax reasons. But it's equally dumb to ignore tax consequences when trying to decide whether to sell stocks in your taxable accounts.

For starters, investors can use their losses to offset gains. For example, if you bail out of the stock market and lose \$100,000 on **Tyco International Ltd.**, **WorldCom Inc.** and other recent disasters, you can use that loss to offset \$100,000 of capital gains this year. Just remember this rule applies only to gains and losses from actual sales, not those on paper, says Martin Nissenbaum of Ernst & Young in New York.

- **Getting Going:** [Damage Control: What to Do to Stanch Your Stock Losses](#)¹

Next comes a rule some investors may not be aware of: Suppose your losses exceed your gains, or you don't have any gains at all. If so, you can deduct as much as \$3,000 (\$1,500 if you're married and filing a separate return from your spouse) from your wages, interest, dividends and other income this year. If your losses were even bigger than that, you can carry over any unused losses into future years and use them subject to the same limits.

What if an investor decides to bail out of a stock at a loss but still thinks the long-term future of the stock is bright? If so, beware of the "wash-sale" rules. A wash sale generally occurs when the investor sells a stock at a loss and buys the same stock within 30 days of the transaction. If you do that, you can't deduct your losses on that sale this year. One simple solution: Don't buy back exactly the same stock or bond. Or don't buy the same security within the forbidden time period.

For example, suppose you sold shares in a mutual fund and want to keep your market exposure. If so, "consider buying another fund that has similar holdings," says Gary Schatsky, a fee-only financial planner in New York City. "The tax code is your friend. Use it to mitigate losses through tax write-offs when the market isn't your friend."

MORE TOM HERMAN

Read [Tom Herman on Taxes](#)⁴, my weekly column available exclusively in the Online Journal.

Send me your questions, comments and story ideas by e-mail to tom.herman@wsj.com⁵. Naturally, I can't respond to every one, but I will read every one and will use this column to answer those with the broadest reader interest.

Please include your name, address and daytime phone number. We won't publish your names, but I may need to ask you for additional information in order to respond. Questions may be edited for clarity and brevity.

TAX TOOLS

- [Capital gains worksheet and guide](#)
- [What's your average tax rate?](#)
- [What's your marginal tax rate?](#)

COMPANIES

	Dow Jones, Reuters
Tyco International Ltd. (TYC)	
PRICE	12.33
CHANGE	0.37
U.S. dollars	6/27
WorldCom Inc.-WorldCom Group (WCOM)	
PRICE	0.83
CHANGE	0.00
U.S. dollars	6/25

* At Market Close

Many readers have asked about the tax treatment of stocks that appear to be worthless. The short answer is you can deduct a loss on a worthless stock you've hung on to; deduct it for the year in which it became worthless. Just make sure it's completely worthless. If, for example, a company has filed for bankruptcy protection and its stock is still trading on an exchange for \$1 a share, it may be worthless in your eyes, but not to an IRS agent. In such cases, consider asking a friendly stock broker to buy the shares from you to establish your loss.

These rules apply to most investments. But they don't apply to your personal home. If you sell your personal residence at a loss, you can't deduct that loss. Also, there are special rules for other situations, such as investments in "small business investment company" stock. See IRS Publication 550, available free on the IRS Web site (<http://www.irs.gov/2>).

STILL MISSING your federal income-tax refund check?

The IRS recently launched a new program allowing taxpayers to check on its Web site (<http://www.irs.gov/3>) for the status of their refunds. Officials say this marks the first time taxpayers have been able to access their accounts directly through the Internet.

To use the program, taxpayers need to know their Social Security number, their filing status (such as single or married filing jointly) and the amount of their missing refund. Officials say taxpayers can use this new service to find out if their return has been processed and when their refund will be mailed or deposited directly in their bank account. The program "also can help taxpayers learn if there is a problem with their refund and recommend steps to resolve problems," the IRS says. Taxpayers also can find out if their check was returned to the IRS as undeliverable.

Technophobes who don't trust cyberspace still can use the IRS's automated, toll-free line (800-829-4477) to get refund information.

THE IRS OFFERS a new, faster way to resolve disputes.

Small businesses and self-employed taxpayers can use "fast-track mediation" to clear up tax battles, starting this month, the IRS says. Disputes will be resolved within 40 days, compared with several months through the regular appeal process.

"Either the taxpayer or the IRS small business/self-employed division can propose mediation of disputed issues related to examinations or collection actions," the IRS said. "If both parties agree to mediation, a specially trained IRS mediator from the appeals division helps resolve the dispute. The mediator facilitates discussion, and may request additional information, but cannot impose a resolution. The taxpayer and IRS must agree on any resolution."

The IRS says taxpayers don't give up any rights and can pull out of the process at any time. Issues that aren't resolved this way "can follow the normal IRS appeal process." But some issues, such as those with no legal precedent, can't be tackled in fast-track mediation.

IRS AS MATCHMAKER?

"I think the IRS may have gone overboard in its attempt to be more user-friendly," says a reader of this column who works at CCH Inc., the Riverwoods, Ill., publisher of tax and other business information. He attaches a new IRS form, Form 12510, "Questionnaire for Requesting Spouse."

"Whether anyone would really trust the IRS to fulfill such a delicate and personal request, and what sort of remedy might be available if you were unsatisfied with the results, I leave to your imagination," the CCH employee quips. The form in question is supposed to be used in conjunction with Form 8857 when requesting "innocent-spouse relief." Translation: That essentially means asking the IRS to spare you from liability from taxes that you believe should be the responsibility of the other spouse, or an ex-spouse.

BRIEFS: Michigan's tax amnesty, which began May 15, is set to end soon. The state says tax returns and amnesty forms, with payment, must be received or postmarked no later than July 1. ... New York state plans a tax amnesty. Dates haven't yet been announced.

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