

Losses Are A Bad Thing

With the downturn in the economy we find that many people are experiencing losses of one kind or another- primarily- losses in their business, capital losses or rental losses. Although it hurts your pocketbook when it happens- losses are a good thing for tax purposes. We have heard many people say to us in the past “My accounting doesn’t really matter for last year- I had a loss in my business.” Nothing could be further from the truth! Losses can be used to offset other income in some instances or carried over or back to other tax years. The tax treatment depends on which kind of loss you have.

Business losses are the best kind of the three. This is your income minus your expenses from your business and they are “ordinary losses” that offset “ordinary income.”

Capital losses are those from the sale of capital assets, usually from the sale of stocks. Can only be used to offset capital gains. Then you can deduct \$ 3,000 per year and carry forward the rest.

Rental Losses are those from rental property and are *passive activity losses* with special rules on how much can be deducted each year.

If you think you have losses call us and we’ll help determine what your type of loss you have and help plan the best way to use it.