The Capital Gains Tax Guide

> Holding an investment for a year can cut the tax on your gain roughly in half. This guide shows why, plus the surtax that catches higher earners.

How long you hold an investment before selling can matter more to your tax bill than what you sell it for. The tax code rewards patience, and it does so with a rate structure that is genuinely worth understanding before you hit the sell button.

Long-term vs short-term

Sell an asset you have held one year or less and the gain is short-term, taxed as ordinary income at your regular bracket. Hold it more than a year and the gain is long-term, taxed at the preferential rates of 0, 15, or 20 percent.

That difference is large. A gain taxed at a 22 percent ordinary rate as short-term might be taxed at just 15 percent as long-term. Waiting until the one-year mark passes, when you are close, is one of the simplest tax moves available.

A worked example you can reproduce

Suppose a single filer has 60,000 dollars of ordinary taxable income and sells for a 20,000 dollar long-term gain in 2026. The gain stacks on top of the income. Because 60,000 dollars is already above the 49,450 dollar top of the 0 percent band, the whole 20,000 dollar gain falls in the 15 percent band and the tax is about 3,000 dollars.

Had that same gain been short-term, it would be taxed at the 22 percent ordinary rate, roughly 4,400 dollars. Holding past a year saved about 1,400 dollars on the same 20,000 dollar profit. The Capital Gains Tax Calculator runs this for your income and gain.

The 0 percent band people miss

There really is a 0 percent long-term rate. For 2026 a single filer pays no federal tax on long-term gains that fall below about 49,450 dollars of total taxable income. Retirees and people in low-income years can sometimes realize gains entirely tax-free by staying under that line.

This is the basis of tax-gain harvesting, where you deliberately sell appreciated assets in a low-income year to reset your cost basis at no tax cost. The room available shrinks as your ordinary income fills up the lower band first.

The surtax that catches higher earners

Above 200,000 dollars of income for a single filer, an extra 3.8 percent net investment income tax applies to investment income, including capital gains. It stacks on top of the 15 or 20 percent rate, so a high earner can face an effective rate well above the headline number.

That surtax is easy to forget and can turn a planned 15 percent into 18.8 percent. If a large sale would push you over the threshold, spreading it across tax years can keep you under it. The Capital Gains Tax Calculator includes the NIIT so the total is not a surprise.

Key takeaway. Hold more than a year to unlock the 0, 15, or 20 percent long-term rates, and watch the 200,000 dollar line where the 3.8 percent surtax begins.

Assumptions

- Long-term means an asset held more than one year. Short-term is one year or less and is taxed as ordinary income.
- The 0, 15, and 20 percent breakpoints and the NIIT threshold are 2026 single-filer figures from IRS sources.
- Long-term gains stack on top of your ordinary taxable income when deciding which rate applies.

Sources

- IRS, topic 409 capital gains and losses
- IRS, net investment income tax (Form 8960)