

July 1, 2009

**RE: Current Events Memorandum  
Ways to Claim Capital Loss Deductions when Losses are not clear**

Capital loss deductions on tax returns should always be taken; however, figuring out when to claim such deductions can be a bit tricky.

Two ways that these deductions can be taken are as follows:

**Number 1-** A capital loss deduction can be triggered by selling worthless shares but the write-off is limited to the amount of any capital gains for the year plus \$3,000 (or \$1,500 if you use married filing separate status). After doing this, any leftover capital loss gets carried over to the next year with the same \$3,000 (or \$1,500) limitation.

**Number 2-** Under the Tax Code there is no deduction for partial worthlessness so the taxpayers must wait until the shares have become wholly worthless. To do this, the taxpayer must correctly identify the year when the shares become wholly worthless (**remember Enron and WorldCom?**). The IRS doesn't consider bad shares to be wholly worthless until they have no liquidation value and not hope for regaining any value in the future. The simplest solution to avoid these issues is to sell any shares that may soon be worthless while they are still listed on one of the Exchanges. In so doing there will be some cash gained and selling the shares do trigger a tax loss to the IRS. A little-known exception in the tax law grants taxpayers a seven-year statute of limitations period—instead of the normal three years—to claim a worthless stock loss. This special statute allows an extra four years to file an amended return to capture the deduction for worthless stock in the correct year.