Cash Course | Grades 6+

Taxes II: Capital Gains | Worksheet

Matching

Match the definition in Column A with the term in Column B.

Column A

__________ Investments bought and sold within one year.
__________ The increase in value of an asset or investment.
__________ Loss from selling an asset less than its purchase price.
__________ Profit from selling an asset more than its purchase price.
__________ Investments sold more than one year after purchase.
__________ The profit made from selling an asset or investment.

Column B

a. Capital Gains
b. Capital Loss
c. Short-Term Capital Gains
d. Long-Term Capital Gains
e. Realized Gain
f. Unrealized Gain

Multiple Choice

1. **When does the federal government tax capital gains?**
    a. When they are unrealized and the asset is still held.
    b. When the asset is sold and the gains are realized.
    c. Immediately when an asset increases in value.
    d. Every year, regardless of whether the asset is sold.
2. **What can be done with a capital loss?**
    a. It can be ignored for tax purposes.
    b. It must be paid back immediately.
    c. It can be used to lower your taxable income.
    d. It increases the total tax bill.
3. **How can an investor avoid paying capital gains tax?**
    a. By selling their investments immediately
    b. By not selling their investments at all
    c. By transferring their investments to another person
    d. By investing only in non-taxable assets
4. **How are qualified dividends taxed compared to regular income?**
    a. At a higher rate than regular income
    b. The same as capital gains
    c. The same as regular income
    d. At a lower rate than regular income

Application

Imagine you've inherited 100 shares of Lemonade Corp from a relative. The shares were bought at $50 each but are now worth $100 each. You need money for college expenses. Discuss the tax implications if you decide to sell all your shares immediately, and compare it to the scenario where you sell only half now and the other half a year later. Consider the impact of short-term vs. long-term capital gains tax on your decision.

Scan to watch episode:

Taxes II: Capital Gains | Answer Key

Matching

Match the definition in Column A with the term in Column B.

Column A

c. Investments bought and sold within one year.
f. The increase in value of an asset or investment.
b. Loss from selling an asset less than its purchase price.
a. Profit from selling an asset more than its purchase price.
d. Investments sold more than one year after purchase.
e. The profit made from selling an asset or investment.

Column B

a. Capital Gains
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Application

A sample answer could include: If I sell all my inherited Lemonade Corp shares immediately, I'll owe taxes on the $50 profit per share at the short-term capital gains rate, which is typically higher than the long-term rate. However, if I sell half now and half later, I'll owe short-term capital gains tax on the first half and long-term capital gains tax on the second half, potentially reducing my overall tax burden. It's crucial to consider these tax implications when deciding how to sell my shares, especially if I need the money for college expenses. Consulting a financial advisor or tax professional can also help me make the best decision for my situation.