

# Capital gains and ordinary income

Countries



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What is the reason for differentiating between capital gains and ordinary income? Is there a purpose? Economic or merely tax reasons?

### Capital Gains and Ordinary Income

The act of investing is one way of acquiring revenues in the field of business. One of the most preferred methods of investing is by buying and selling stocks. Through this an individual or an organization can either profit or lose financially depending on the value and demand of the stocks. However, profits from stock investments are subjected to tax deductions which vary depending on the nature of the profit (Articlebase. com, 2008).

Ordinary income is a type of profit wherein if it falls under the 28% bracket, it is automatically taxed based on the given bracket. Also, the profit can be deducted according to the “ wages at your full, regular tax rate.” There are 2 “ types of investment profits that get taxed as ordinary income” which are dividends and short-term capital gain. The difference between this 2 is that the former can be automatically taxed upon receipt while the latter requires to be taxed if the stock has been sold and gained profit for less than a year (Articlebase. com, 2008). Meanwhile, a capital gain will exist if a stock is sold at higher price than its original value. Moreover, long term capital gain is holding the “ stock for more than a year before selling, the gain is long term and is taxed at the lower capital gains rate” (Morningstar. com, 2005).

The reason behind separating capital gains from ordinary income is to protect investors and the economy as well from uncertainties in the world of business. More so, the different nature of these 2 profits can help business individuals or organizations to determine where they are gaining revenues

and how much money they are losing. Through this, business people can have an idea on how to handle the company and their business deals or transactions. As a result, commerce would be more dynamic thus helping the economy to be more vibrant which can help improve the standard and cost of living of the public.

#### References

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