When you take advantage of the tax code's offset game, your stock market portfolio can represent a little gold mine of opportunities to reduce your 2023 income taxes.

The tax code contains the basic rules for this game, and once you know the rules, you can apply the correct strategies.

Here's the basic gist:

- Avoid the high taxes (up to 40.8 percent) on short-term capital gains and ordinary income.
- Lower the taxes to zero—or if you can't do that, lower them to 23.8 percent or less by making the profits subject to long-term capital gains.

Think of this:

You are paying taxes at a 71.4 percent higher rate when you pay at 40.8 percent rather than the tax-favored 23.8 percent.

To avoid higher rates, here are seven possible tax planning strategies.

Strategy 1

Examine your portfolio for stocks you want to unload, and make sales where you offset short-term gains subject to a high tax rate, such as 40.8 percent, with long-term losses (up to 23.8 percent).

In other words, make the high taxes disappear by offsetting them with low-taxed losses, and pocket the difference.

Strategy 2

Use long-term losses to create the $3,000 deduction allowed against ordinary income.

Again, you are trying to use the 23.8 percent loss to kill a 40.8 percent rate of tax (or a 0 percent loss to kill a 12 percent tax, if you are in the 12 percent or lower tax bracket).

Strategy 3

As an individual investor, avoid the wash-sale loss rule.

Under the wash-sale loss rule, if you sell a stock or other security and then purchase substantially identical stock or securities within 30 days before or after the date of sale, you don't recognize your loss on that sale. Instead, the tax code makes you add the loss amount to the basis of your new stock.

If you want to use the loss in 2023, you'll have to sell the stock and sit on your hands for more than 30 days before repurchasing that stock.

Strategy 4

If you have lots of capital losses or capital loss carryovers and the $3,000 allowance is looking extra tiny, sell additional stocks, rental properties, and other assets to create offsetting capital gains.

If you sell stocks to purge the capital losses, you can immediately repurchase the stock after you sell it—there's no wash-sale "gain" rule.

Strategy 5

Do you give money to your parents to assist them with their retirement or living expenses? How about children (specifically, children not subject to the kiddie tax)?

If so, consider giving appreciated stock to your parents and your non-kiddie-tax children. Why? If the parents or children are in lower tax brackets than you are, you get a bigger bang for your buck by

- gifting them stock,
- having them sell the stock, and then
- having them pay taxes on the stock sale at their lower tax rates.

Strategy 6

If you are going to donate to a charity, consider appreciated stock rather than cash, because a donation of appreciated stock gives you more tax benefit.

It works like this:

- Benefit 1. You deduct the fair market value of the stock as a charitable donation.
- Benefit 2. You don't pay any of the taxes you would have had to pay if you sold the stock.

Example. You bought a publicly traded stock for $1,000, and it's now worth $11,000. If you give it to a 501(c)(3) charity, the following happens:

- You get a tax deduction for $11,000.
- You pay no taxes on the $10,000 profit.

Two rules to know:

1. Your deductions for donating appreciated stocks to 501(c)(3) organizations may not exceed 30 percent of your adjusted gross income.
2. If your publicly traded stock donation exceeds the 30 percent, no problem. Tax law allows you to carry forward the excess until used, for up to five years.

Strategy 7

If you could sell a publicly traded stock at a loss, do not give that loss-deduction stock to a 501(c)(3) charity. Why? If you sell the stock, you have a tax loss that you can deduct. If you give the stock to a charity, you get no deduction for the loss—in other words, you can just kiss that tax-reducing loss goodbye.

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