What Are Unrealized Gains and Losses?

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A realized **gain** or a **loss** when they sell an asset, unless the price matches exactly what they paid for it.

Unrealized gains and losses reflect changes in the value of an investment **before it is sold**.

Tax consequences on gains and losses **only occur when the investment is sold**.

Key Takeaways

- An **unrealized gain is an increase in the value**, while an **unrealized loss** is the value of an asset that an investor has **not sold**.
- A **gain or loss** on an investment is **realized when it is sold**.
- **Capital gains are taxed**, and capital losses may be deducted **only after the sale of an asset**.

Dealing With Unrealized Gains

The value of a financial asset traded in financial markets can change any time those markets are open for trading.

e.g. Acme Inc, at $30 per share, last quoted is $42, you're sitting on an unrealized gain of $12 per share.

Unrealized gains and losses are also called paper profits or losses. That's because the gain or loss only exists while the asset is in the investor's ledger.

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How Capital Gains Are Taxed

When selling assets, calculate the capital gain or loss for each.

You pay tax on your net capital gains:

1. your total capital gains +
2. less any capital losses −
3. less any discount you are entitled to on your gains −

Australian individuals **who own an asset for 12 months or more qualify for a 50% capital gains tax discount**. This translates to paying tax on only half of the net capital gain from the asset.

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Can I Invest My Capital Gains to Avoid Paying Taxes?

There are certain investments that **reinvest capital gains**, thereby **allowing you to avoid paying taxes**.

For instance, capital gains that are realized for mutual funds or stocks held in a retirement account may be reinvested automatically on a tax-free basis.

This means you don't have to report them and, as such, don't increase your tax burden.

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The Bottom Line

Selling an asset may result in a capital gain or loss. This depends on whether its value increases or decreases from the original purchase price.

But you can still experience a gain or loss even if you don't dispose of the asset. This is called an unrealized gain or loss.