

INTERNAL REVENUE SERVICE

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The Honorable Carl Levin
United States Senator
477 Michigan Avenue
Room 1860
Detroit, Michigan 48226

Attention: David Allen

Dear Senator Levin:

This letter responds to your inquiry dated November 29, 2004, on behalf of your constituents . asked why they cannot offset their bond interest income with losses they have incurred on sales of stock.

Under the Internal Revenue Code, generally a taxpayer may deduct losses from the sale or exchange of capital assets, such as shares of stock, to the extent the taxpayer has gains from the sale of capital assets. An individual, however, may deduct up to \$3,000 (\$1,500 in the case of a married individual filing a separate return) of additional capital losses to offset ordinary income, such as interest income. Although the limit on capital losses may, in some circumstances, prove frustrating to taxpayers, the limit is statutory; only Congress can change it.

I hope this general information is helpful. If you have any additional questions, please contact me or , Identification Number , at (.

Sincerely,

Robert M. Brown
Associate Chief Counsel
(Income Tax and Accounting)