Tax-Loss Harvesting

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FINANCIAL PLANNING

Not every investment security will generate positive returns, even when market conditions are at their best. Investors will likely experience some losses from time to time. However, realizing capital losses through tax-loss harvesting your investments that are out of favor can help potentially lower your income tax liability when these losses occur.

How Tax-Loss Harvesting Works

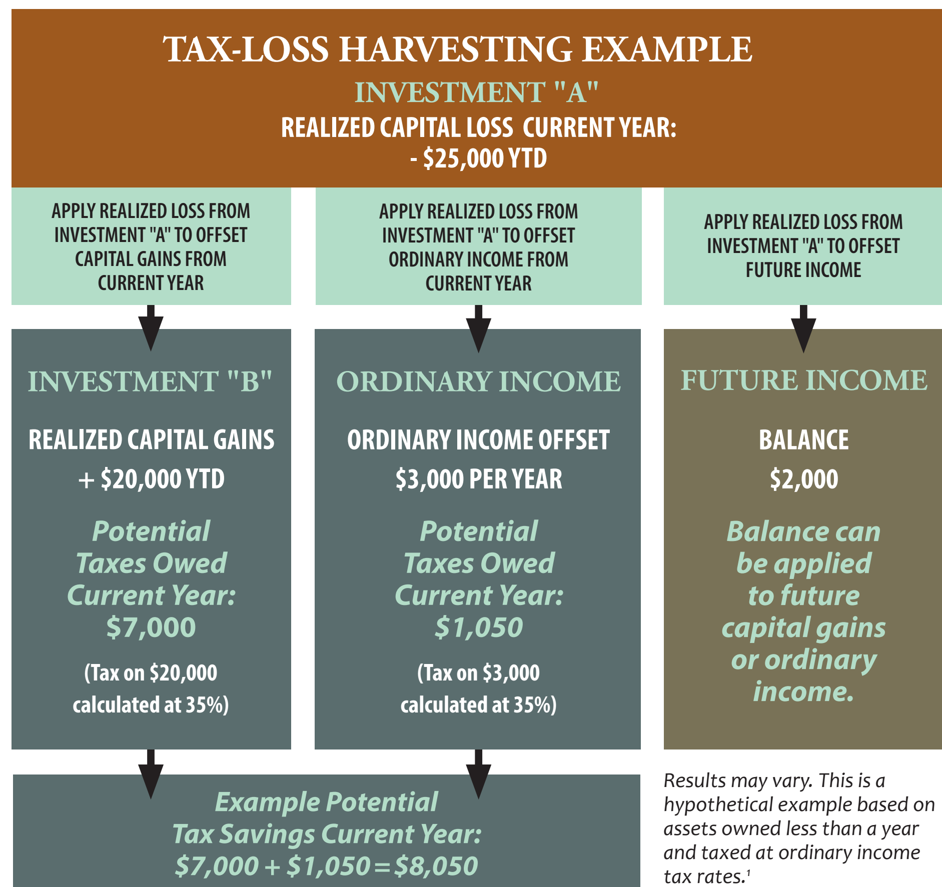
1. Identify and sell your investment that can be sold at a loss.
2. Purchase a similar (but not "substantially similar") investment that you expect will perform in the same manner as the investment you sold.
3. Use the loss from selling your investment to offset any realized capital gains in your portfolio this year *AND* offset up to $3,000 of your ordinary taxable income for single individuals, head of households, and married couples filing jointly—$1,500 limit for married couples filing separately.
4. If there are any remaining realized capital losses, these losses can be carried forward to a future tax year to potentially offset future income.

Issues to Consider

Proactive tax-loss harvesting can be a valuable tool as you manage your portfolio. However, it is not applicable for retirement accounts like 401(k) or IRA because losses from tax-deferred accounts can't be deducted.

Wash sale rule: If you sell a security at a loss and rebuy a substantially similar security within thirty days before or after the sale, you can't use the loss against your current income tax.

Discuss the options which are best for you with your financial and tax advisors as you develop your own tax-loss harvesting strategy.



Results may vary. This is a hypothetical example based on assets owned less than a year and taxed at ordinary income tax rates.[1]

1. Adams, H. (2018). Reap the benefits of tax-loss harvesting to lower your tax bill. Retrieved from https://www.schwab.com/resource-center/insights/content/reap-benefits-tax-loss-harvesting-to-lower-your-tax-bill

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