



# Tax Loss Harvesting

## An Overview

Tax loss harvesting involves the sale of a security at a loss within a taxable account, which allows an investor to “harvest” the loss for income tax purposes. To help illustrate this concept, let’s review an example. Company A stock is purchased and declines in value by \$4,000. If Company A stock is sold, the investor may be able to offset up to \$4,000 of realized gains, potentially reducing their taxable income for the year. Although tax loss harvesting does not eliminate a loss, it does provide the opportunity for an investor to reduce realized capital gains or their ordinary income. Under current IRS regulations, an investor may use realized losses to offset gains and reduce ordinary income by as much as \$3,000 each year. Any loss that exceeds this amount may be carried forward and used in future tax years.

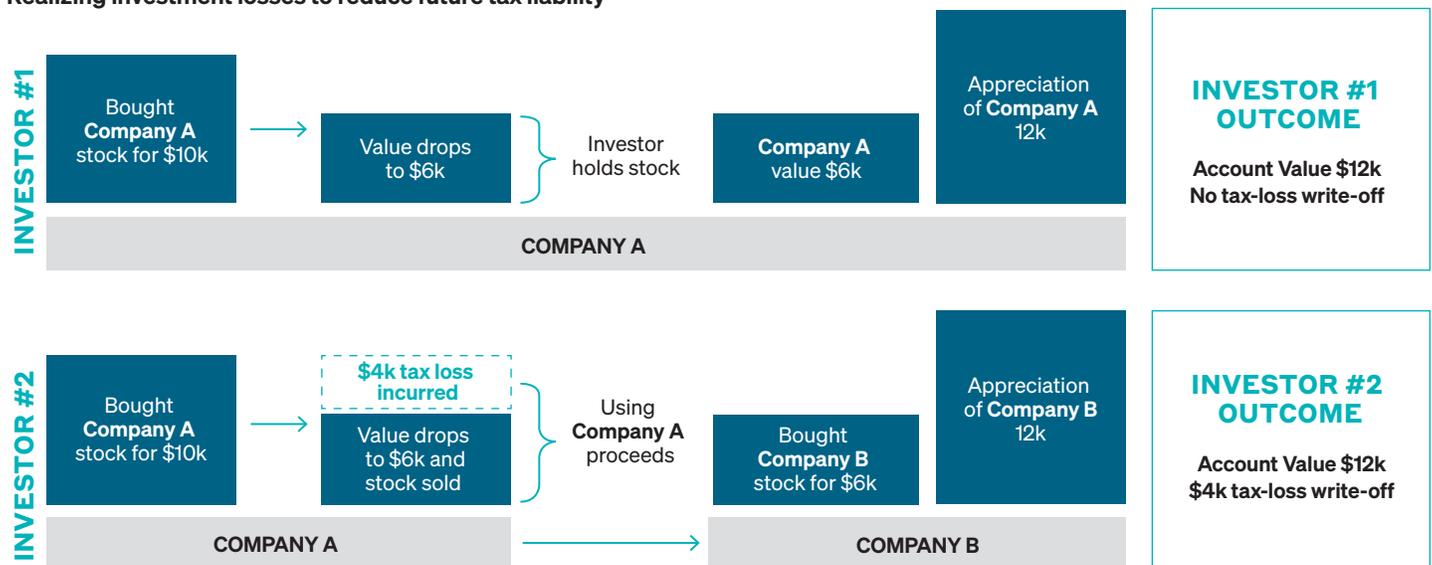
Investors that use tax loss harvesting strategies should be familiar with the wash-sale rule. The wash-sale rule, which is part of the IRS tax code, disallows the sale of a security that is “substantially

identical” to the security originally purchased that is 30 days prior to or after the sale. In other words, an investor may not sell a stock to realize a tax loss, and then repurchase the same stock within 30 days. The wash-sale rule applies to all accounts owned by an individual and an individual’s spouse. To avoid this, when an investor sells a security at a loss, they can purchase a similar type and style of security with the proceeds from the sale. In addition to getting the benefit of realizing a loss for tax purposes, the substitute security allows the portfolio to maintain a similar asset allocation, risk profile and expected return.

There are many personal circumstances to consider when utilizing tax loss harvesting. Not every client will benefit from using this strategy. To learn if this or other strategies may be appropriate for your unique situation, reach out to the professionals at Meeder Private Wealth.

## WHY WE USE TAX LOSS HARVESTING

Realizing investment losses to reduce future tax liability



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