Tax Loss Harvesting

First Ascent Asset Management

What Is Tax Loss Harvesting?

Tax loss harvesting involves intentionally taking a loss by selling a security that has declined in value, for the purpose of receiving a tax benefit.

How Does it Work?

Markets rise and fall over time, whether we want them to or not. In the process, our portfolio holdings rise and fall in value too.

When one of your portfolio holdings declines to a value that is materially lower than the price at which it was purchased, you can sell it and realize the loss. That loss can be used to reduce your taxes.

Under the IRS's "wash-sale rule," however, if you buy back the same or a "substantially identical" security within 30 days of the loss sale, your tax loss will be disallowed.

To prevent you from being out of the market for that 30-day period, it is customary to purchase a replacement position. The replacement position is typically selected because it is expected to have similar performance characteristics to the position that was sold.

After the 30-day wash sale period has expired, you have a choice. You can either hold the replacement position indefinitely, or you can sell it and repurchase your original holding.

What Are the Benefits?

The potential benefits of tax loss harvesting include:

- Reduction of current taxes and/or deferral of taxes to a later time.
- Deferring taxes may help you avoid paying taxes during your peak earnings years and instead pay them later when your marginal tax rate is lower.
- You may generate short-term losses when you tax loss harvest but pay taxes later at the lower long-term capital gains rates.
- You may take the tax savings you generate from tax loss harvesting and invest that money so that it grows and compounds over time.

Issues to Keep in Mind

- Make sure not to harvest tax losses at the expense of your long-term investment goals.
- Make sure you take transaction costs into account when deciding whether to harvest a loss.