Tax-Loss Harvesting

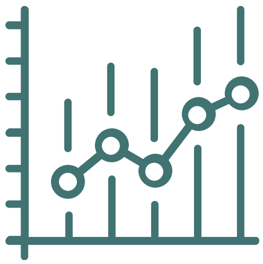
How to Reduce Your Tax Liabilities and Put More Money Toward Your Investments

What Is Tax-Loss Harvesting?

Tax-loss harvesting is a strategy that you can use to minimize your tax liability by selling investments that have experienced a loss in value. The goal of tax-loss harvesting is to offset capital gains taxes that you owe on your profitable investments by realizing losses on other investments.

Here's how it works: Suppose an investor owns several different stocks, and one of those stocks has experienced a decline in value since they purchased it. If the investor sells that stock at a loss, they can use that loss to offset the gains from any other investments that they have sold for a profit.

If the losses exceed the gains, investors can use the excess losses to offset up to $3,000 of their taxable income each year. If they have more than $3,000 in losses, the remaining amount can be carried over to future tax years. (See a detailed visual example later in this guide.)

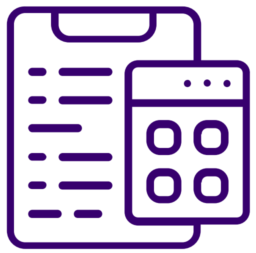


Combine Gains

+

With Losses

=



Reduce or Eliminate Tax Bill

Pros and Cons of Tax-Loss Harvesting

Pros

- Reduce your capital gains taxes
- Portfolio optimization
- Cut your losses on any investments that won't recover

Cons

- Pay transaction fees to sell
- Might miss out on future gains
- Potential to throw off your overall asset allocation

Tax-Loss Harvesting: How It Works

You invest $100,000 in
ETF A and **ETF B.**

ETF A: $60,000 **ETF B: $40,000**

ETF B has realized gains of $10,000.
ETF A has unrealized losses of $7,000.

ETF A: $53,000 **ETF B: $50,000**

Without tax-loss harvesting

At the end of the year you have a realized gain of $10,000 from ETF B.

Potential tax bill of $1,500.
(15% x $10,000 = $1,500)

With tax-loss harvesting

1. **SELL** ETF A (realized loss)
2. **BUY** A similar replacement
3. Use the loss to offset part of the $10,000 gain from **ETF B**.

Result: Taxable gain of $3,000

Potential tax bill of $450.
(15% x $3,000 = $450)

In this example, tax-loss harvesting reduced the tax liability by $1,050 – a substantial savings you can invest back into your portfolio, use to maximize IRA contributions, pay off debt, or spend as you please.

Apply to Your Situation

To see if Tax-Loss Harvesting might be right for you, apply your situation to the template below.

STEP 1

You invest $______________ in ______________ and ______________.

Total Investment *Investment A* *Investment B*

$ ______ *Investment A*

$ ______ *Investment B*

STEP 2

Investment Name: ______________ has an unrealized loss of $______________

Investment Name: ______________ has a realized gain of $______________

STEP 3

Without Tax-Loss Harvesting

You have a realized gain of $______________ from ______________

Investment A or B

Multiply the dollar amount of the realized gain by 15% (capital gains tax on profit) to find your potential tax bill.

$ ______ x 15% = $ ______

Gain *Potential Tax Bill*

With Tax-Loss Harvesting

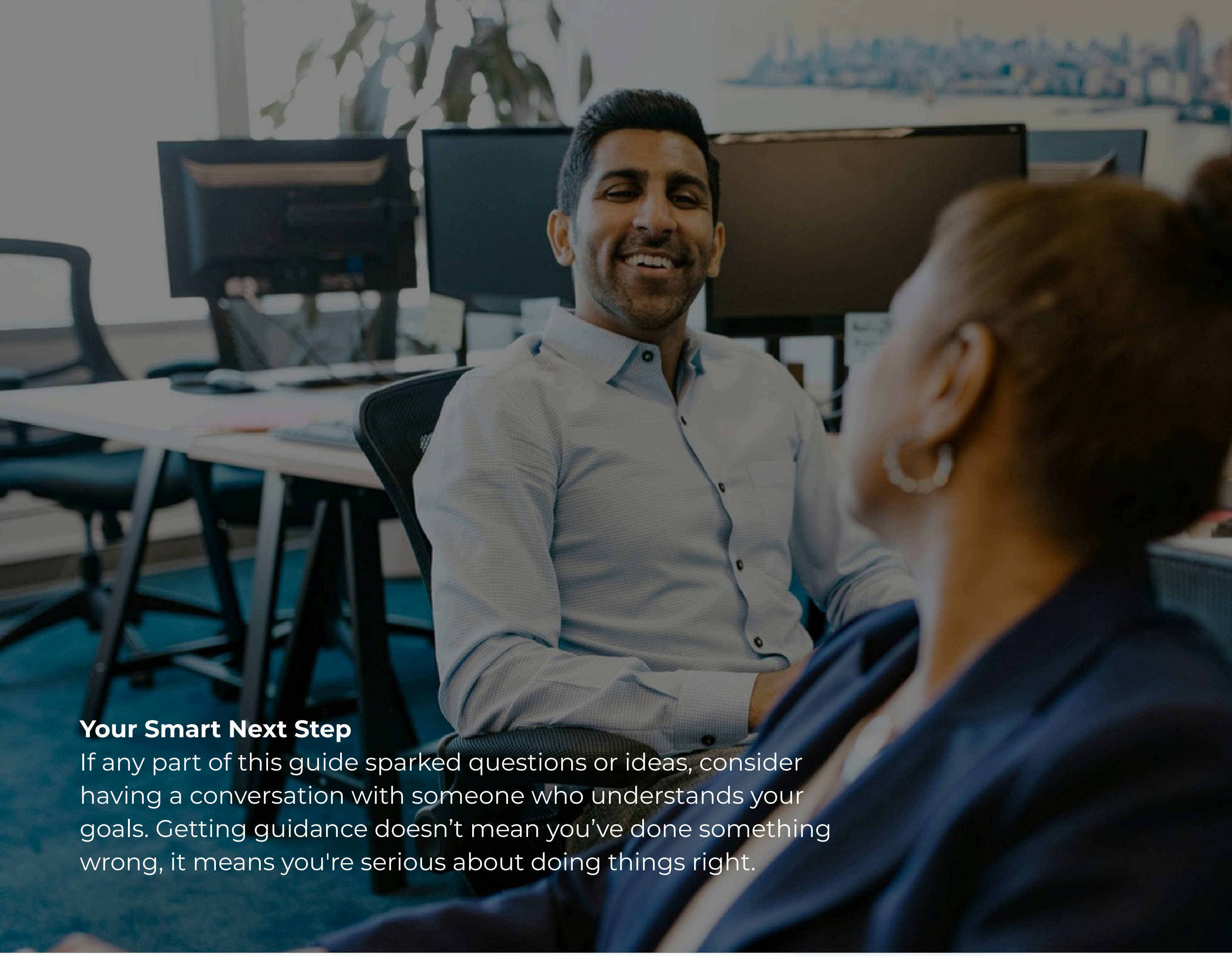
With tax-loss harvesting, and regular monitoring, you can potentially offset a gain by selling a loss. Assuming you realized a loss on your investment, refer back to our example for comparison.

1. **Sell** investment with unrealized loss.
2. **Buy** a similar replacement, if appropriate.
3. **Use** the loss to offset part of a realized gain.

You might be able to offset part of the $____________ gain from ____________ with the loss from ____________, resulting in a taxable gain of $____________.

$ ______ x 15% = $ ______

Gain *Potential Tax Bill*



Your Smart Next Step

If any part of this guide sparked questions or ideas, consider having a conversation with someone who understands your goals. Getting guidance doesn't mean you've done something wrong, it means you're serious about doing things right.

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