

Investor Pro-tip

Tax-Loss Harvesting

Offset capital gains and save on your tax bill

Reading time: 4 min

Learn how investors use this strategy to reduce their tax liability when selling investments and more valuable tips.

What is tax-loss harvesting?

Tax-loss harvesting is selling an investment with a capital gain while simultaneously selling an unprofitable position at a loss, reducing or eliminating the capital gains tax owed.

Here's an example

Assume an investor's income puts them in the highest tax bracket. If the investor sold his or her investments their long-term capital gains rate would be 20%.

Here is the investor's stock portfolio and trading activity for the year:

Portfolio:

- Investment A: \$250,000 *unrealized gains*, held for 425 days
- Investment B: \$130,000 *unrealized losses*, held for 550 days

Trading Activity:

- Investment A: Sold 50%, realized \$125,000 in long-term capital gains

The tax owed from this sale: $(125,000 \times 20\%) = \$25,000$

If the investor harvested losses by selling half of Investment B in addition to Investment A, *the sale of (B) would help to offset the gains of (A)* and the tax owed would be: $(125,000 - 65,000 \times 20\%) = \$12,000$.

A tax savings of **\$13,000**.

What to watch out for

You should always consult a tax professional before making a financial transaction. Additionally, the above scenario does not consider the **Alternative Minimum Tax (AMT)**, which we'll discuss in a future pro-tip.

Investors should also take note of the **"Wash-Sale"** rule, which the IRS uses to prevent investors from taking a loss on an investment, just to turn right back around and buy the same investment.

To avoid the wash-sale rule, investors must wait at least 30 days before repurchasing a "substantially identical" asset. Fortunately, there are number of ways to address this issue and keep your portfolio in balance when utilizing tax-loss harvesting strategies.

Have questions?

Feel free to give us a call and we'd be happy to discuss the pros and cons of tax-loss harvesting for your specific financial situation.

Did you find this Pro-Tip useful?

[Sign-up](#) for our newsletter to receive more insights, or feel free to [Contact Us](#).

Jonathan Greenwich
Managing Executive



Virtus Capital
Wealth Management
jgreenwich@virtuscap.com