HOW TO REDUCE YOUR TAX LIABILITIES AND PUT MORE MONEY TOWARD YOUR INVESTMENTS

THE RETIREMENT
PLANNING GROUP

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 offset 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.)

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

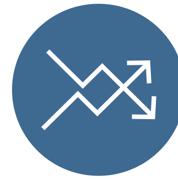
- ✗ Pay transaction fees to sell.
- ✗ Might miss out on future gains.
- ✗ Potential to throw off your overall asset allocation.

Tax Loss Harvesting: How It Works

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

ETF A: $60,000

ETF B: $40,000



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

ETF A: $53,000

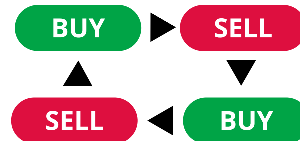
ETF B: $50,000

Without tax-loss harvesting

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

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

With tax-loss harvesting



You can offset part of the $10,000 gain from **EFT B** with the loss from **EFT A**, resulting in a taxable gain of $3,000.

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

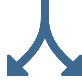
In this example, tax-loss harvesting reduced the tax liability by $1,050 – a substantial savings you can invest back into your portfolio, use to maximize IRA contributions, pay off debt, or spend as you please.

Apply to Your Situation

To see if Tax Loss Selling 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 SELLING

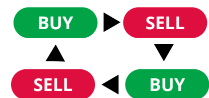
You have a realized gain of $__________________ from ______________.
Investment A or B

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 SELLING

With Tax Loss Selling, 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.



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**

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*As of 01/01/2022

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