



TAX-LOSS HARVESTING

HOW REALIZING INVESTMENT LOSSES MAY HELP LOWER YOUR TAXES

What Is Tax-Loss Harvesting?

'Tax-Loss Harvesting' means selling an investment that has dropped below what you originally paid, then using that loss to lower your tax bill. It cancels or reduces the tax you would owe on your winning investments, while you stay invested by buying something similar.

The best way to think of it is like a store return! The market handed you a product that lost value. So, instead of just eating the cost, you decide to return it for store credit, then use that credit to knock down the tax you owe on your winning investments that you sold for a profit.

\$3,000

Max net loss you can subtract from your **regular income** each year (\$1,500 if married filing separately)

30 Days

The **wash sale window**, both before and after a sale (61 days in all)

Forever

Unused losses **carry forward** to future years and never expire

Terms to Know

Capital Gain: The profit when you sell for more than you paid.	Capital Loss: The shortfall when you sell for less than you paid.	Cost Basis: What you originally paid, used to measure gain or loss.
Ordinary Income: Wages, salary, and most other income, taxed at regular rates.	Short-Term: Held one year or less, taxed like a paycheck (up to 37%).	Long-Term: Held more than one year, taxed lower (0%, 15%, or 20%).

How Tax-Loss Harvesting Works in Three Simplified Steps

1 Sell the Loser
Sell an investment worth less than you paid. This locks in a capital loss you can put to work.

2 Use the Loss
The loss cancels capital gains dollar for dollar. Any leftover trims up to \$3,000 of regular income.

3 Stay Invested
Reinvest in a similar (not identical) holding so you stay in the market and on plan.

Where Tax-Loss Harvesting Works

It only helps in a regular taxable brokerage account. It does *nothing* in an IRA/401(k), where growth is tax-sheltered.

Watch Out for the Wash Sale Rule!

This is the biggest trap. If you buy the *same investment*, or one the IRS calls **substantially identical** (too close to count as different), within 30 days before or after your sale, the IRS blocks the loss for that year. The rule reaches across all of your accounts, including your spouse's accounts and IRAs.



How Losses Cancel Gains

Losses get used in a set order. Wiping out short-term gains first saves the most, because those are taxed at the higher paycheck rates.

- 1. Like Cancels Like:** Short-term losses erase short-term gains, and long-term losses erase long-term gains.
- 2. Cross Over:** Any leftover loss then erases the other type of gain.
- 3. Trim Income:** Still have losses? Deduct up to \$3,000 from regular income.
- 4. Carry Forward:** Anything left rolls into future years with no expiration.

Example: Paul Saves \$750*

Paul has an \$8,000 long-term gain from a fund he sold. He also sells a losing stock for a \$5,000 loss. That loss cancels \$5,000 of his gain, so he is taxed on only \$3,000.

Tax Without Harvesting **\$1,200**

Tax After Harvesting **\$450**

In this example, Paul keeps \$750 and stays invested

*One-year illustration at an assumed 15% rate, not a prediction. Harvesting often defers tax rather than erasing it, since a lower cost basis can raise future gains, and costs or market moves during the 31 days can reduce the benefit.

2026 Long-Term Gain Rates

Rate	Single (Taxable Income)	Married Filing Jointly
0%	Up to \$49,450	Up to \$98,900
15%	\$49,451 to \$545,500	\$98,901 to \$613,700
20%	Over \$545,500	Over \$613,700

Short-term gains are taxed as ordinary income (10% to 37%); high earners may owe an added 3.8% Net Investment Income Tax. Federal rates, tax year 2026; state and other taxes may apply. Brackets: IRS Rev. Proc. 2025-32. NIIT: IRC §1411. Verify current figures at irs.gov.

Smart Moves

✓ Do	✗ Do Not
- Hunt for losses during market dips - Track the 30-day window across every account - Match losses to your biggest gains first	- Rebuy the same holding within 30 days - Sell a good investment just for the tax break - Forget your state's tax rules

Substantially Identical: Some Real Examples

The IRS never gave a hard definition of substantially identical, so it lives on a sliding scale... The tricky middle is funds. Here is how common holdings line up.



IDENTICAL: Loss is blocked	GRAY ZONE: No ruling, risky	DIFFERENT: Loss is safe
Off Limits - Loss disallowed for the year		
✗	Sell Apple (AAPL) → Buy Apple (AAPL)	The exact same security. The textbook wash sale.
✗	Sell Berkshire B (BRK.B) → Buy Berkshire A (BRK.A)	Same company, two share classes. Treated as one security.
✗	Sell a stock → Buy a call option on it	An option to buy counts as the security itself.
✗	Sell VOO → Rebuy VOO in your IRA	The rule follows you, not the account. In an IRA the loss is gone for good.
Gray Zone - No IRS ruling: avoid, or keep records		
🌀	Sell VOO (S&P 500) → Buy IVV or SPY (S&P 500)	Same index, different sponsors. Many advisors treat this as too close.
🌀	Sell QQQ (Nasdaq-100) → Buy QQQM (Nasdaq-100)	Same index and same sponsor, just a cheaper share class. High risk.
🌀	Sell a Vanguard 500 fund → Buy the Vanguard 500 ETF	Same index and fund family. A different wrapper is not enough.
Safe Swaps - Standard practice, loss preserved		
✓	Sell VOO (S&P 500, ~500 stocks) → Buy VTI (Total Market, ~3,700)	Different index and make-up, yet closely correlated. The classic swap.
✓	Sell ExxonMobil (XOM) → Buy Chevron (CVX) or XLE	Different company, same sector exposure.
✓	Sell Coca-Cola (KO) → Buy PepsiCo (PEP)	Two separate companies. Clearly not identical.
✓	Sell an S&P 500 fund → Buy a Russell 1000 or value fund	Different index or investment style keeps you clear.
The Sector Swap: Stay Invested Without the Identical Stock (Example): Hypothetically, an investor could sell a dropped stock to realize the loss, then hold a broad sector fund through the 31-day window. This is an illustration, not a recommendation. It may lower wash-sale risk, not remove it, and the traps below still apply.		

Hidden Traps That Quietly Break the Rule

⚠️ IRA or 401(k) Rebuy: The worst outcome. The loss is disallowed with no basis add-back, so it vanishes for good.	⚠️ Your Spouse's Accounts: A purchase by your spouse counts as if you made it yourself.
⚠️ Auto-Investing and Dividend Reinvestment: A recurring buy or reinvested dividend inside the window trips the rule on those shares.	⚠️ Options and Warrants: A contract to acquire the same security is treated as the security itself.

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If you have any questions, schedule a 15-Minute Discovery Call!