Income Insights: Systematic Tax-Loss Harvesting

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Authors	Date	Topic
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Key takeaways

- Systematic tax-loss harvesting enables taxpayers to offset realized capital gains with losses, making it possible to reduce overall tax liability.
- When taxpayers' net capital losses exceed their capital gains, they can use a portion of those losses to offset ordinary income—and any unused losses can be carried forward to future tax years.
- Adhere to the "wash sale" rule and consult a tax professional.

While many people wait until year-end to harvest tax losses to offset gains, systematic tax-loss harvesting—taking advantage of market volatility throughout the year by selling securities at a loss to offset capital gains on other investments—can be a worthwhile strategy for investors looking to reduce tax liabilities and enhance after-tax returns.

This chart, which shows the average monthly returns of the S&P 500 Index over the 50 years from January 1975 through December 2024, reflects the wide variety of equity returns that occurred during that lengthy period. It also helps explain why those who hold off on tax planning until year-end may miss out on opportunities that arise as the market shifts throughout any given year. Systematic tax-loss harvesting allows people to realize losses no matter when a market downturn occurs.

A bar chart displaying the average monthly performance of the S&P 500 over 50 years.

Systematic tax-loss harvesting's primary benefit is that it enables taxpayers to offset realized capital gains with losses, making it possible to reduce overall tax liability. By realizing losses, you defer the taxes on your gains. This can be advantageous for long-term investment growth. Additionally, by implementing tax-loss harvesting systematically, investors can optimize their tax situation while maintaining a focus on long-term investment goals.

When taxpayers' net capital losses exceed their capital gains, they can use up to $3,000 ($1,500 if married filing separately) of those losses to offset ordinary income—and any unused losses can be carried forward to future tax years. In this way, losses can be used when they're most beneficial, potentially lowering taxes in future years. Many people turn to systematic tax-loss harvesting to help them amass large losses over time that they can later use to offset large capital gains events, such as the sale of a business. Another popular practice is to use harvested losses to move away from highly appreciated, concentrated positions over time. When used as part of a broader tax strategy, systematic tax-loss harvesting can be a "power tool," allowing investors to manage their tax exposure actively.

Note that it's essential to adhere to the "wash sale" rule, which disallows the deduction of a loss if the same or a substantially identical security is purchased within 30 days following the sale.

Consulting with a tax professional can help optimize this strategy effectively.

Systematic tax loss harvesting aims to capture losses while maintaining a portfolio's risk profile and relevant diversification parameters. The thresholds for and frequency of systematic tax loss harvesting depend on market conditions and other factors.

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