TAX LOSS HARVESTING OVERVIEW

WASH SALE RULE
KEY CONSIDERATIONS

TAX ALPHA COMPANIES

Tax-loss harvesting involves selling investments at a loss to offset capital gains or ordinary income.* The U.S. federal government permits the use of these capital losses to balance capital gains within the current tax year or to carry forward into future years, potentially indefinitely.

Once investors realize losses, they often wish to reinvest to maintain their investment strategy. To prevent investors from selling and immediately repurchasing the same investment to gain a tax benefit, the government enforces the "wash sale" rule. This rule prohibits claiming a loss on the sale of an investment if a "substantially identical" security is bought within a 30-day period before or after the sale.

INVESTMENT IMPLICATIONS

The IRS has not clearly defined what "substantially identical" means, leading to varied interpretations. When reinvesting proceeds in a similar investment, tax experts suggest considering the extent of overlap in holdings and the similarity in prospective returns between the new and original investments.

The greater the overlap and similarity in returns, the higher the risk of the transaction being classified as a wash sale by the IRS. Below is a framework to help consider a loss harvesting strategy. Always consult a tax professional before implementing such a strategy.

TAX LOSS HARVESTING FRAMEWORK

	POTENTIAL REPLACEMENT	CONSIDERATIONS
SINGLE STOCK *(e.g., technology stock)*	• ETF • Active Mutual Fund • Index Mutual Fund	• Minimal to no holdings overlap • Significant diversification and difference in prospective returns • Unique risk characteristics in active mutual funds
ETF *(e.g., U.S. small-cap ETF)*	• Active Mutual Fund (e.g., active emerging markets mutual fund) • ETF or Index Mutual Fund with different index (e.g., single country ETF)	• Potential holdings overlap • Similar prospective returns based on index composition
ACTIVE MUTUAL FUND *(e.g., active U.S. small-cap mutual fund)*	• ETF or Index Mutual Fund (e.g., emerging markets ETF)	• Potentially significant holdings overlap • Similar prospective returns

** Realized losses can offset capital gains on a dollar-for-dollar basis and up to $3,000 per year of ordinary income.*

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