



# Ehlen Heldman

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## Tax Loss Harvesting: The Power of Tax Loss Harvesting Explained



Tax loss harvesting is a valuable strategy for investors looking to reduce taxable income and minimize overall tax liability. This technique involves selling investments that have experienced a loss to offset gains in other investments, minimizing the overall tax burden.

### What is Tax Loss Harvesting?

Tax loss harvesting involves selling securities or assets in your investment portfolio that have declined in value to realize a loss. These realized losses can then be used to offset capital gains from other investments, thus reducing your overall taxable income. If your total capital losses exceed your capital gains, you can use up to \$3,000 of the excess loss to offset other types of income, such as wages or salaries, and carry forward any remaining losses to future tax years.

### How Does It Work?

1. **Identify Underperforming Assets:** Begin by reviewing your investment portfolio to identify assets that have decreased in value. These are potential candidates for tax loss harvesting.
2. **Sell Loss-Making Investments:** Execute the sale of these underperforming investments to realize the losses. Ensure that you document these transactions for accurate tax reporting.
3. **Offset Gains:** Use the realized losses to offset any capital gains you've incurred from other investments. For example, if you have \$10,000 in capital gains and \$4,000 in realized losses, your taxable capital gain is reduced to \$6,000.
4. **Deduct from Ordinary Income:** If your total capital losses exceed your capital gains, you can deduct up to \$3,000 of the excess loss from other sources of income, such as wages. Any remaining losses can be carried forward to future tax years.
5. **Avoid Wash Sales:** Be aware of the "wash sale rule," which disallows the deduction of losses if you repurchase the same or substantially identical securities within 30 days before or after the sale. This rule is designed to prevent taxpayers from claiming a tax deduction while maintaining their investment position.

### Why Consider Tax Loss Harvesting?

1. **Reduce Taxable Income:** By offsetting capital gains and potentially deducting up to \$3,000 in ordinary income, tax loss harvesting can lower your overall taxable income, leading to potential tax savings.

2. **Enhance Portfolio Management:** Selling underperforming investments allows you to rebalance your portfolio and reinvest in assets with better growth prospects, improving your long-term investment strategy.

3. **Losses Carry Forward:** Unused capital losses can be carried forward indefinitely, to provide benefit to a future tax year when you have realized gains or minimal losses.

Tax loss harvesting is a powerful tool to reduce your tax liability and improve your investment strategy. Review your portfolio for opportunities to realize losses and offset gains, and consider consulting with a financial advisor or tax professional to implement this strategy effectively. Start planning today to take advantage of tax loss harvesting and maximize your investment benefits while minimizing your tax burden.

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