HAYES ADVISORY GROUP

RETIREMENT PLANNING

Knowledge is Power

Question Of The Month - November

"Hi, Brian. I have been listening to your show for a while and have learned a lot. I realize now I need to do some things to make my retirement plan much more tax efficient. You have mentioned several ways to do this, including tax loss harvesting. Can you please explain more about this? Thank you." Ronald

Hi, Ronald. Many people are looking for ways to become more tax efficient to protect their retirement accounts. And as we have covered on the show many times, there are several tools that can be used to save tax dollars and become more tax efficient. One of the tools and strategies available is tax loss harvesting.

Tax loss harvesting is a strategy available for after-tax accounts, like a brokerage account. The strategy is based on the ability to offset capital gains with capital losses so you only pay tax on your *net* capital gains. Of course, with many people losing money in their investment accounts this year, this strategy is a popular one right now. However, there's a certain sequence you have to follow when offsetting gains with losses. First, short-term losses are used to offset short-term gains, and long-term losses are used to offset long-term gains. Then, if there are any losses remaining, they can be used to offset the opposite type of gain.

For example, let's say this year you have the following gains and losses:

- $80 long-term gain from selling A Corp. stock;
- $10 long-term loss from selling B Corp. stock;
- $20 short-term gain from selling C Corp. stock; and
- $50 short-term loss from selling D Corp. stock.

You first offset your $50 short-term capital loss against your $20 short-term capital gain, resulting in a $30 net short-term loss. Then use your $10 long-term loss to offset your $80 long-term gain, resulting in a $70 net long-term gain. The $30 net short-term loss can then be applied against your $70 net long-term gain, resulting in an overall net long-term capital gain of $40.
Now, if you have overall net capital loss, then you can claim up to $3,000 per year in capital losses ($1,500 if married filing separately) that can be used to offset ordinary income (such as wages) in computing your tax liability. You can also carry forward any unused capital losses (i.e., above $3,000) to future tax years until they are used up. Unfortunately, you cannot carry back your capital losses to prior tax years.

If you choose to use this strategy to trade in and out of stocks in an effort to harvest tax losses, pay attention to the 'wash sale rule.' This rule prevents you from harvesting a loss on securities you sold if you repurchase the same or substantially identical securities within 30 days before or after your sale. It also applies across your brokerage accounts, so if your investment advisor sells stock of a company at a loss in one of your accounts and you buy the same stock within 30 days in another account, your loss is still disallowed. For this reason, if you engaged in tax loss harvesting, you should consider purchasing a different replacement security.

As always, we highly recommend using a retirement professional with tax expertise and a professional tax preparer when using this strategy. There are some other details about this strategy you must know about before implementing it. To learn more details about this question and to hear the answers to many other retirement planning questions that have been submitted to us, tune into the Retirement Money Matters Show this weekend. The show airs on Sunday morning at 8:00 a.m. on WWKI (100.5 FM) or online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 765-452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.