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Tax Loss Harvesting

Dear Client,

As we approach the end of the year, now is an ideal time to review your investment portfolio and explore opportunities to reduce your 2025 tax liability. One of the most effective strategies available to investors is tax-loss harvesting—a method of realizing capital losses to offset capital gains and possibly ordinary income.

What Is Tax-Loss Harvesting?

Tax-loss harvesting involves selling investments that have declined in value in order to "harvest" a loss that can be used to offset taxable capital gains realized elsewhere in your portfolio. The goal is to minimize the taxes owed on investment gains while maintaining your overall investment strategy.
In simple terms, if you sold one investment for a profit this year, you can sell another that has dropped in value to reduce or eliminate the taxable gain.

How It Works

- *Capital losses first offset capital gains of the same type.*
  Short-term losses offset short-term gains, and long-term losses offset long-term gains.

- *Net losses can further offset other types of gains.*
  If your total capital losses exceed your total gains, up to $3,000 ($1,500 if married filing separately) of the remaining loss can be used to offset ordinary income such as wages, interest, or business income.

- Carryforward of unused losses.
  Any losses not used this year can be carried forward indefinitely to offset gains in future tax years—an important long-term planning benefit.

Example
For example, let's suppose you have $10,000 of capital gain from the sale of stocks earlier this year. You also have several losing positions, including shares in ABC Corp. The ABC shares currently show a loss of $15,000. Strictly from the tax viewpoint, you should consider selling enough of your ABC shares to recognize a $13,000 loss. Your capital gains will be offset entirely, and you will have a $3,000 loss to offset against a like amount of ordinary income.

Use earlier-in-the-year losses to offset gains you would benefit from taking. If you have capital losses on sales earlier in the year, consider whether you should take capital gains on some stocks that you still hold. For example, if you have appreciated stocks that you would like to sell, but don't want to sell if it will cause you to have taxable gain this year, consider selling just enough shares to offset your earlier-in-the-year capital losses (except for $3,000 of those which can be used to offset ordinary income). You should

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consider selling appreciated stocks now if you believe those stocks have reached (or are close to) the peak price and you also believe that you can invest the proceeds from the sale in other property that will give you a better rate of return in the future.

Example
For example, suppose you have $20,000 of long-term capital losses from stock transactions, and $4,000 of short-term capital gains. If you don't have other transactions involving securities or other capital assets, you'll wind up the year with a $16,000 long-term capital loss, of which only $3,000 can be used to shelter ordinary income. The $13,000 balance of the loss can be used to offset gain on appreciated stock that you wish to sell but which you would not sell now if you had to pay tax on the gain recognized on the sale.

Important Rules to Know

- *Watch the Wash-Sale Rule*
  The IRS disallows a loss deduction if you purchase a “substantially identical” investment within 30 days before or after the sale. To maintain your market exposure, consider purchasing a similar—but not identical—investment or waiting the required 31 days before repurchasing the same security.

- *Timing Matters*
  Only realized losses on sales that occur before December 31, 2025 can be applied to this year’s tax return.

- *Coordinate with Your Financial Advisor*
  Harvesting losses should not compromise your long-term investment strategy. Balancing tax efficiency with sound portfolio management is key.

Why It Matters Now

With market volatility continuing into late 2025, many investors may find opportunities to realize losses that can be strategically used to offset gains and lower this year’s tax bill. By identifying these opportunities before year-end, you can take proactive steps to improve your overall after-tax returns.

As always, please feel free to contact us if you have any questions.

Yours truly,

Green, Polack & Company
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