



November Question of the Month

T. BRIAN HAYES

“Hi Brian. I have been listening to your show for a while and have learned a lot. I realize now that I need to do some things to get 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 get more tax efficient to protect their retirement accounts. And like 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 that you only pay tax on your net capital gains.

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 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. You cannot, unfortunately, 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 that you have to know about before implementing this strategy. To get more details about this question and get answers to many other retirement planning questions that have been submitted to us, tune into the Retirement Money Matters Radio Show this weekend. The show airs on Saturday morning at 6:00 on WIBC (93.1 FM), Sunday morning at 8:00 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 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.

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T. Brian Hayes is the Founder, Owner, and CEO of Hayes Advisory Group, boasting over 30 years of experience in guiding clients towards their retirement goals. Specializing in pre-retirees and retirees, he ensures clients understand their planning options and tailors strategies to their unique needs. A strong advocate for education, Hayes regularly writes and speaks on financial topics, hosts a weekly radio show on retirement, and instructs for The Prepare Institute, a 501-3 non-profit educational institution. He holds memberships in prestigious financial organizations like The Indiana Network of Estate Planning Professionals and The National Association of Insurance and Financial Advisors. Hayes is a distinguished member of the Million Dollar Roundtable (MDRT), with multiple honors recognizing his professional expertise and ethical standards. Based in Central Indiana, he serves clients across the U.S. and Canada, residing with his wife and three children.

