**Tax Loss Harvesting & Wash Sale Rule: A Quick Guide**

Are you an individual investor with a nonqualified account? Do you find that taxes are cutting into your investment returns? This guide is designed specifically for you. Let's explore further.

**What is Tax Loss Harvesting?**

Tax loss harvesting is a powerful strategy that allows you to offset investment gains by selling investments that have experienced a loss. When you realize a loss, you can use it to offset any taxable gains and reduce your overall tax liability. This strategy empowers you to minimize taxes while maintaining a similar investment position, putting you in control of your financial situation.

If the losses exceed the gains, you can deduct up to $3,000 from other income on your tax return. This provides reassurance that this strategy can adapt to your specific investment needs. Additionally, you can offset gains and losses from other asset classes, including real estate. Any remaining losses can be carried forward to offset income in future years, offering a promising outlook for your investment strategy.

**How does it work?**

1. **Identify Losses:** Review your investment portfolio to identify securities that have decreased in value since you purchased them.
2. **Sell the Securities:** Sell the securities that are currently at a loss. This action realizes the loss, which can then be used to offset any gains.
3. **Reinvest:** To maintain your desired asset allocation and investment strategy, reinvest the proceeds. This can be done in a similar but not identical security to avoid violating the wash sale rule.

**Example:**

* Suppose you bought Stock $AAPL for $100,000, and it is now worth $90,000. Selling it would realize a $10,000 loss.
* If you have another investment, $NVDA, that you sold for a $20,000 gain, the loss from $AAPL would offset this gain, resulting in a net $10,000 capital gains tax.

This seems simple until you take into account the **Wash Sale Rule.**

The Wash Sale Rule states: “A wash sale occurs when you sell a security at a loss and then purchase the same or a "substantially identical" security within 30 days before or after the sale.”

Using our previous example, if you sold $AAPL for a loss, you cannot buy this security again within 31 days if you want to offset the losses with another gain. If you do buy $AAPL again within this period and a wash sale has occurred & the loss is added to the cost basis of the newly purchased security.

For example you bought 1000 shares of $AAPL @ $100 each for $100,000 total. You sold the shares at $90 for a $10 loss per share for (-$10,000). You then buy 1000 shares of $AAPL again within the 30-day period at $80 for $80,000. Because this is considered a wash sale, your new cost basis would be $80,000 + $10,000 (the loss is added to the new cost basis) = $90,000 or $90/share.

This situation can be incredibly frustrating and far from ideal for individual investors, but it absolutely must be factored in when making investment decisions.

At FBS Securities, our team provides the proper tools to implement Tax Loss Harvesting and decrease the tax liability for nonqualified accounts.

**Disclosure**: FBS Securities is a Registered Investment Advisor, and the insights are based on the FBS team's professional knowledge and experience in the financial industry. The information provided is intended to offer general guidance and educational content. It's essential for individuals to consult with a qualified financial advisor or tax professional to receive personalized advice tailored to their specific financial situation and goals.