Buck Financial Advisors, LLC

"Helping you Determine your Financial Future"

BFA

Time for Harvest!

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Tax-loss harvesting, also commonly known as tax selling, is one of the ways to avoid taxes on some of your portfolio gains. In addition, up to $3,000 worth of capital losses can be deducted from ordinary income. Clearly, knowing when and how to use capital losses is an important part of an overall tax-planning strategy for any investor with securities in a taxable account. There are some caveats, so planning is necessary.

Since retirement accounts are not taxed at the time of the transaction, there is no benefit for tax loss selling; this is for taxable accounts only. Furthermore, since capital gains tax rates are at most 15%, I would not recommend this if you are in the 15% marginal tax bracket.

Once you sell a security, stock or mutual fund, you have to wait 30 days before you can buy back the same security. This is what is known as the "wash rule". If you want to maintain the position you run the risk of being whipsawed by market volatility. But you can buy a different security to hold during your 30 days. For example you might sell the Vanguard Large Cap Value Index for a tax loss, but don't want to be out of the market for 30 days. You can go in and buy the "iShares S&P 500 Index" electronically traded fund (ETF). This will protect you from a major swing in the market during the wait.

If you buy back your security at the lower market value, you have established a new cost basis. Assuming that market prices increase in the future, which I might add they have been known to do, you will have a greater capital gain at the time of sale, than if you had held on to your original security. Currently the capital gains tax rate is 15% for anyone in the 25% marginal tax bracket. Under existing law, that rate is schedule to go up to 20% in 2011. So if you were to sell today for a tax loss you save 15% and if you have capital gains in the future you could pay a higher tax on the gain. If you are an older investor, be aware that you are able to carry your tax losses forward, but they do expire when you do and do not carry over to your estate.

Tax law does allow you to offset Ordinary Income with up to $3,000 of capital loss. Therefore if you are in the 25% marginal rate or higher, that would be a good deal.

If you aren't using the losses to offset realized capital gains or take a current year tax deduction, then I don't see any reason to take losses just for the sake of a tax loss. If this is a security that should be sold for investment reasons, then sell it and carry the loss forward. If it makes investment senses to hold the security then hold it.

If you would like to discuss this technique to see if makes sense for your tax planning, call for an appointment to review your portfolio.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.

Charles Buck CFP®

"A clear vision, backed by definite plans, gives you a tremendous feeling of confidence and personal power ."

Brian Tracy

Ask the CFP®?

What do you think about adding gold to your portfolio?

Gold is an insurance strategy, not an investment. It is an industrial metal and a jewelry metal. Back in the early 1980's when it was trading in the $1,000 per ounce range, which was the high for that cycle, and the historic high. You hear many commercials for gold now and how it has performed much better than the stock and bond market over the last five years. But, if you look back, the Dow Jones industrial average in 1982 was trading in the 700 range; it is 12 times higher today after the largest decline since 1973-74. Gold is trading for less than it did back then.

Once again some are forecasting $5,000 per ounce gold. In my opinion it will only get to that level if we have a total breakdown in our economic system. Personally I feel that US Treasury inflation adjusted bonds would be a better insurance policy. They do not pay much interest at this point in time, but they are adjusted for the rise in the Consumer Price Index. They are insurance for inflation, the same as gold.

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