# Is this a good year for tax-loss harvesting?

Thanks to market swings, evolving tax laws and new technology, it may be a good year to consider tax-loss harvesting – a strategy that can help reduce taxes and improve long-term returns.

**What is tax-loss harvesting?** When you sell an investment for less than you paid, you may be able to use that loss to offset gains from other investments, potentially reducing your overall tax bill.

If your total capital losses exceed your gains, you can use up to $3,000 of those losses to reduce ordinary income each year. You can carry any remaining losses forward to future tax years. The strategy doesn't eliminate taxes altogether; it simply defers them, which can free up money to reinvest elsewhere.

**How it works.** Imagine an investor who sold one stock for a $10,000 gain and another for a $10,000 loss. The two transactions cancel each other out, meaning no capital gains tax is owed for that year. The investor can then reinvest the proceeds while following the IRS's "wash-sale rule." This rule prevents you from claiming a loss if you, or your spouse or a related party, repurchase the same or a "substantially identical" investment within 30 days before or after the sale.

Because of this rule, you should consider how tax-loss harvesting will affect your investment strategy, as the benefit of holding on to that investment (and letting it grow over time) may outweigh the benefit of lowering your capital gains tax bill for a given year.

Good candidates for tax-loss harvesting include investments that no longer fit your strategy (when rebalancing your portfolio, for example), have poor investment potential or can be easily substituted with other investments.

**Why 2025 may be favorable.** Several factors suggest 2025 may be a good time to consider tax-loss harvesting.

First, **market volatility** has created more opportunities to realize losses. The first half of the year saw sharp market swings that left some portfolios uneven. Many large asset managers have already harvested billions in losses, using them to help lower clients' tax liability while keeping investment strategies on track.

Second, **tax law changes** are on the horizon. With major tax reform provisions scheduled to expire in the coming years, many investors are motivated to manage their gains and losses proactively. Those in higher tax brackets stand to benefit most, as the savings increase with your tax rate.

Finally, **technology** has made the process more efficient. In the past, investors typically harvested losses near year-end. Today, automation and direct indexing allow for continuous monitoring and harvesting throughout the year, capturing losses as they appear.

**Putting it into practice.** Tax-loss harvesting isn't right for everyone, and it's not a reason to overhaul your investment strategy. The approach works best for investors with taxable accounts, current or expected capital gains and a long-term perspective.

Consult your financial advisor and a tax professional before making decisions. When used thoughtfully, tax-loss harvesting can help you navigate a volatile market, reduce taxes and keep more of your money working toward your future goals.

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