

[Advertiser Disclosure](#)

[PERSONAL FINANCE](#) > [INVESTING](#)

Your stock losses could save you money — but financial planners say not to rush into anything

Written by [Mallika Mitra](#); edited by [Avril Ayers](#) Dec 19, 2023, 8:37 AM EST

[Share](#)

[Save](#)



Financial advisors say tax-loss harvesting should be part of a year-round strategy.

fcafotodigital/Getty Images

Our experts answer readers' investing questions and write unbiased product reviews ([here's how we assess investing products](#)). Paid non-client promotion: In some cases, we receive a commission from [our partners](#). Our opinions are always our own.

Before the end of the year, you can offset \$3,000 of income on your taxes by selling losing stocks.

Tax-loss harvesting comes with lots of rules, so you should talk to a financial planner about it.

Just because you can sell stocks now doesn't mean you should — it's important not to panic.

No one likes opening their investment app and seeing stocks and bonds in the red. But if you do have some losing investments, you may be able to use them to your advantage.

Enter tax-loss harvesting. This strategy involves selling securities, such as stocks and bonds, that are now worth less than when you bought them, and using those losses to offset gains in your portfolio. The move can potentially lower your tax bill.

But there's a deadline: The sale has to go through before the end of the year in order for you to deduct the losses on the 2023 tax returns you'll be filing come April.

Tax-loss harvesting doesn't make sense for everyone, and there are rules you have to follow carefully. But in a year like this one — when around 200 stocks in the S&P 500 are down for the year as of mid-December despite the overall index being up, according to S&P Dow Jones Indices — it's worth seeing if the move could save you some money.

It's a way to get "a silver lining out of a loss," says Chuck Failla, a financial advisor and principal at wealth management firm Sovereign Financial.

Tax-loss harvesting can reduce your capital gains tax

Whenever you make money from selling an investment, you have to pay Uncle Sam capital gains taxes on that profit. The amount you'll pay will depend on how long you held the security and your income.

If you held the investment for a year or less, those gains are called short-term capital gains, and they're typically taxed at the same rate as your ordinary income, which is anywhere between 10% and 37%. If you held the investment for longer than a year, the tax rate on the gains is typically lower: between 0% and 20%, depending on your taxable income.

But by selling a losing investment, you can offset those gains and potentially lower or completely eliminate taxes you'd have to pay on the gains. If your losses are bigger than your gains, the IRS allows you to offset up to \$3,000 of ordinary income. Losses beyond that can be carried over to future years to help lower your tax bills down the road.

What to consider when tax-loss harvesting

There are strict rules, which is part of why it's typically advised to loop in a professional like a financial advisor or tax accountant. A long-term loss must first be used to offset a long-term gain, and the same goes for short-term losses and gains. However, if there are excess losses of either type, they can be applied to the other category. Tax-loss harvesting can also only be used in taxable investment accounts; you can't deduct losses in a tax-deferred account like a 401(k) or IRA.

You also need to understand the wash-sale rule, which prohibits you from deducting losses if you buy the same security or a "substantially identical" one within 30 days of before or after the sale. You're taking on the risk that the investment you sold could run up during the 30 days and you'll have to wait to buy back in, Failla says, but that's more relevant for people who buy and sell individual stocks instead of in funds, which he doesn't recommend.

If you're looking to rebalance — as in, buy and sell investments to get back to your original asset allocation — consolidate your holdings, or had a bad year for some of your holdings, it makes sense to consider tax-loss harvesting, says Anna Sergunina, president and CEO at MainStreet Financial Planning. The same goes for if you're anticipating income changes, meaning you might be in a different tax bracket in the future.

But whether or not tax-loss harvesting makes sense for you will come down to your personal goals and tax situation, and it's a good idea to speak with a professional before making moves.

"I would not recommend harvesting losses for the sake of doing it," Sergunina says.

She also says to have a clear strategy for how you are going to get back into the market so your money doesn't sit idly in cash (while keeping the wash sale rule in mind).

Set yourself up for next year

Whether or not you harvest taxes this year, you should prepare for the future. That means implementing an overall tax strategy throughout the year, says Catherine Valega, advisor and founder of Green Bee Advisory.

Just because you have to make sales before December 31 to harvest losses in 2023 doesn't mean you can't do so throughout the year moving forward — and in fact, it's probably better to do it early.

"It's not something you want to panic and do just in December," Valega says. "You really want to be thoughtful about your tax strategy throughout the year."



4.35% APY
Member FDIC

360 PERFORMANCE SAVINGS

- No fees
- No minimums
- Open in about 5 min



CITI PRIORITY

Earn up to \$2,000 Cash Bonus.

Open a new eligible checking account with required activities.



5.10% APY
Member FDIC

BASK INTEREST SAVINGS ACCOUNT

Earn 5.10% annual percentage yield with no min. balance or monthly account fees.



Discover Bank, Member FDIC

CHECKING ACCOUNT

See website for details

- Cashback rewards
- No. Fees. Period.
- Apply in minutes



Sponsors of GO BankingRates

Mallika Mitra

Mallika Mitra is a freelance writer and editor. She was previously a writer and editor at Money, where she wrote a weekly newsletter about investing, and a wide range of stories on meme stocks, crypto, generational investing trends and more. Prior ...

[Read more](#)

Advertisement

Advertisement

Advertisement

Advertisement



* Copyright © 2023 Insider Inc. All rights reserved. Registration on or use of this site constitutes acceptance of our Terms of Service and Privacy Policy .

[Contact Us](#) | [Masthead](#) | [Sitemap](#) | [Disclaimer](#) | [Accessibility](#) | [Commerce Policy](#) | [Advertising Policies](#) | [Coupons](#) | [Made in NYC](#)

| [Jobs @ Business Insider](#)

[Stock quotes by finanzen.net](#) | [Reprints & Permissions](#)

[Your Privacy Choices](#)

International Editions: [INTL](#) | [AT](#) | [DE](#) | [ES](#) | [IN](#) | [JP](#) | [MX](#) | [NL](#) | [PL](#)