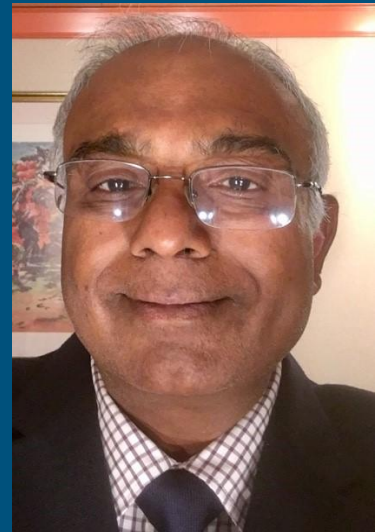


Tax-Loss Harvesting Playbook

August 6, 2022

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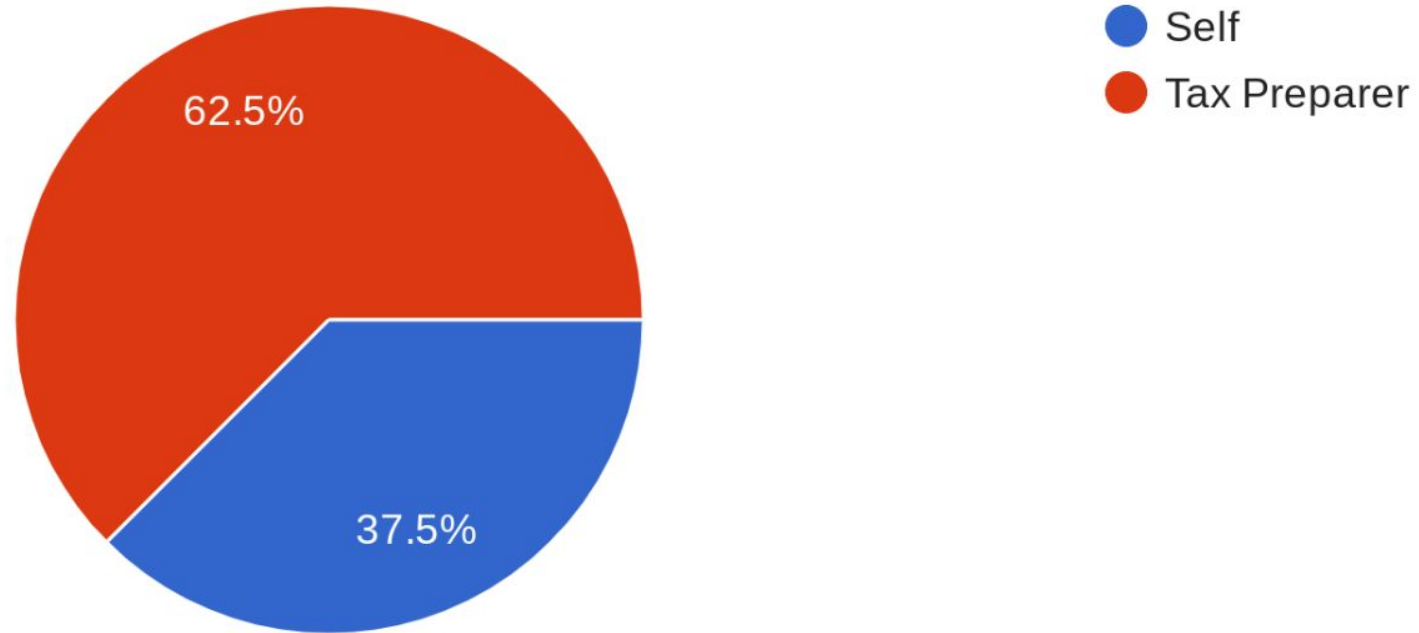
Disclaimer

This presentation is meant for educational purposes only.

It is not a specific investment, tax or legal advice.

**Before taking any action on anything you see in this presentation,
first consult with your tax, legal or investment advisor.**

Who prepared your taxes last year?



1. Market* is down significantly

S&P 500



-13.30%

NASDAQ



-19.10%

QQQ



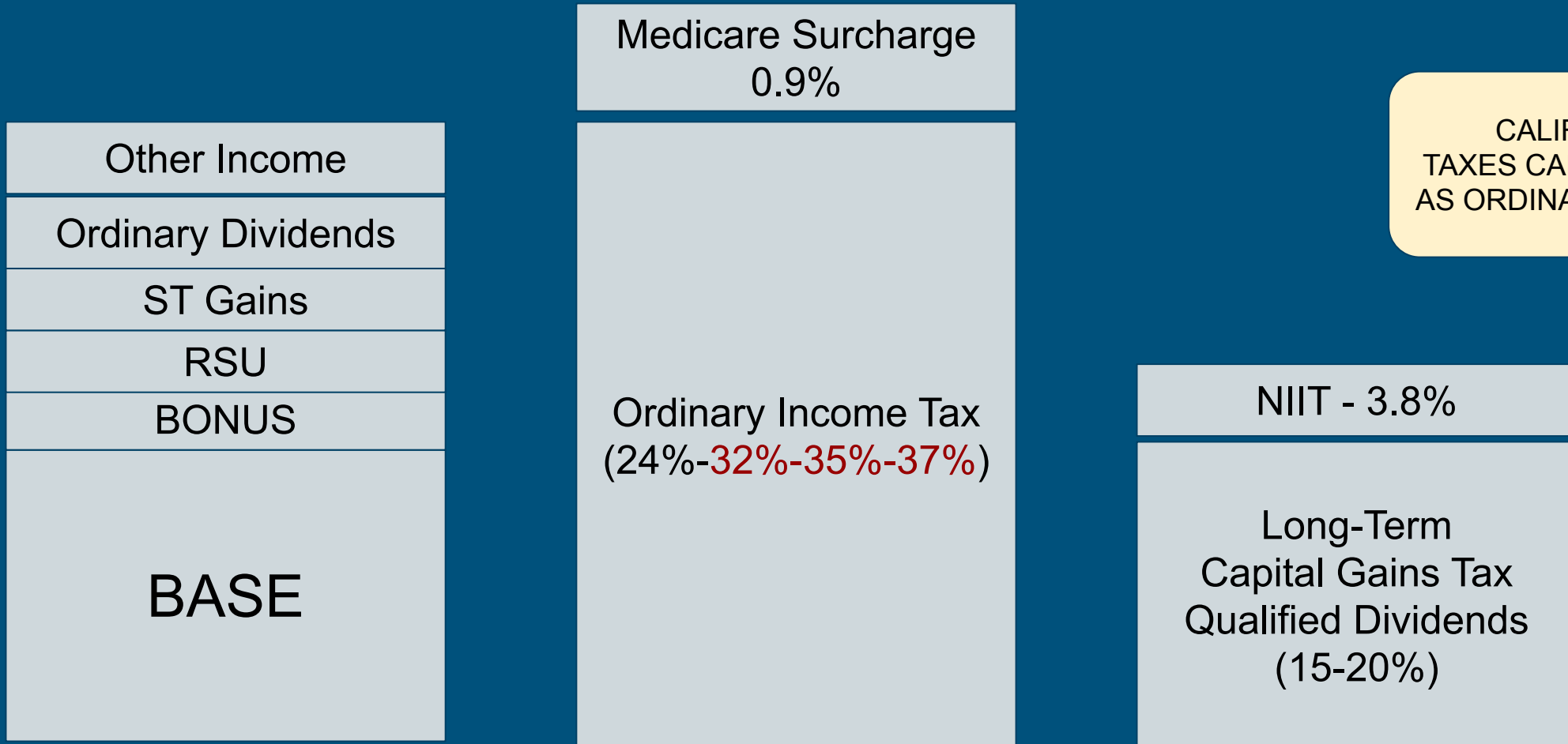
-18.88%

*YTD as of Aug 5, 2022

2. Concentration of Positions



3. High-Tax Bracket



What will you learn today?

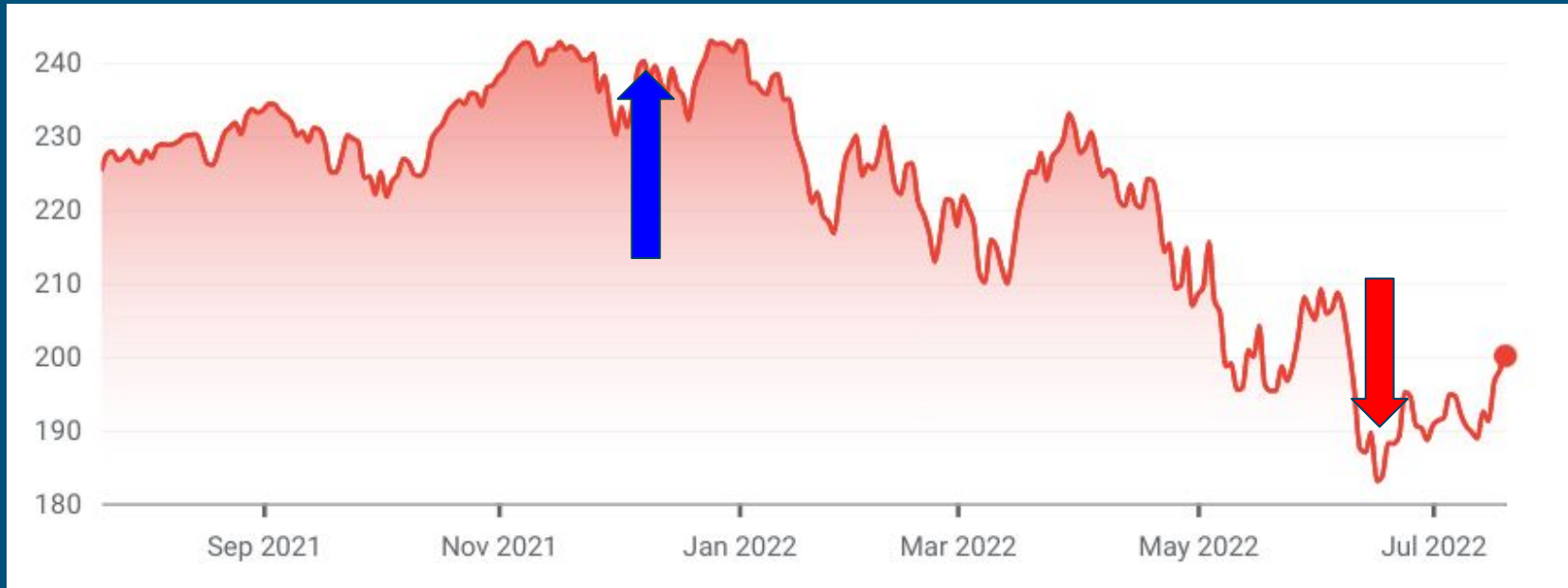
Tax-loss Harvesting

Wash Sale Rule

How to recover losses from RSUs and ESPPs

Traps & Limitations

What is Tax-Loss Harvesting?



BUY

Date	Ticker	Quantity	Price	Market Value	Cost Basis
12/23/21	XYZ	100	\$240	24,000	\$240



ACCOUNT BALANCE

Date	Ticker	Quantity	Price	Market Value	Cost Basis	Unrealized Gain/Loss
6/30/22	XYZ	100	\$190	19,000	\$240	-\$5,000



SELL

Date	Ticker	Quantity	Price	Market Value	Cost Basis	Reported Loss
6/30/22	XYZ	100	\$190	19,000	\$240	-\$5,000

What to do with a loss?

Date	Ticker	Quantity	Price	Market Value	Cost Basis	Reported Loss
6/30/22	XYZ	100	\$190	19,000	\$240	-\$5,000

Cash

\$19,000
(DIFF)

Offset Gains with Losses
 Short-Term Gains - Short-Term Loss
 Long-Term Gains - Long-Term Loss
 If **Net Loss** = $-5,000 + 1,000 = -4,000$

SELL

Date	Ticker	Quantity	Price	Market Value	Cost Basis	Reported Gain
6/30/22	ABC	50	\$30	1,500	\$10	\$1,000

Offset up to **\$3,000** against Ordinary Income in the Current Year (MFJ)

Tax Rate	Tax Savings
15%	\$150
24%	\$720
Total	\$870

Carry forward remaining **\$1,000** to future years

Tax Loss Harvesting

**Technique to offset Capital Losses against Capital Gains
by Selling Appreciated Holdings* and Losing Positions
in the same year**

Offset up to \$3,000 of Losses against Ordinary Income

Carry Forward Losses to next year ...

* Any holdings such as bonds and any property including Real Estate in taxable account

Tax Loss Harvesting - Tips

Works only in Taxable Accounts

Any Holdings (Stocks, ETFs, Mutual Funds, Bonds)

Throughout the year / Not just at year-end

Beware of tripping the Wash Sale Rule

Wash-Sale Rule

IRS Pub. 550



Publication 550
Cat. No. 15093R

Investment Income and Expenses

(Including Capital
Gains and Losses)

A wash sale occurs when you sell or trade stock or securities at a loss and within *30 days before or after* the sale you:

- 1. Buy substantially identical stock or securities,**
- 2. Acquire substantially identical stock or securities in a fully taxable trade,**
- 3. Acquire a contract or option to buy substantially identical stock or securities, or**
- 4. Acquire substantially identical stock for your IRA or Roth IRA.**

Note: Exception - Broker/Dealers and Crypto currencies

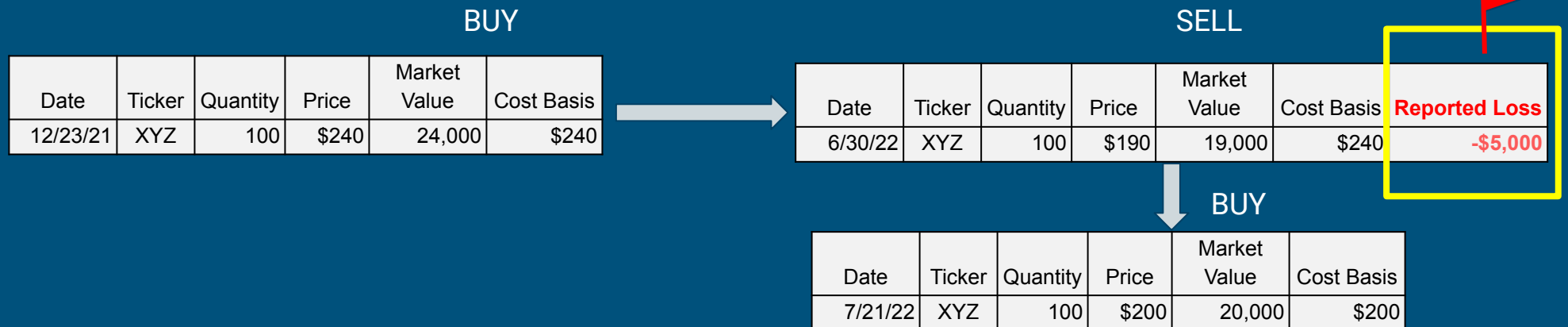
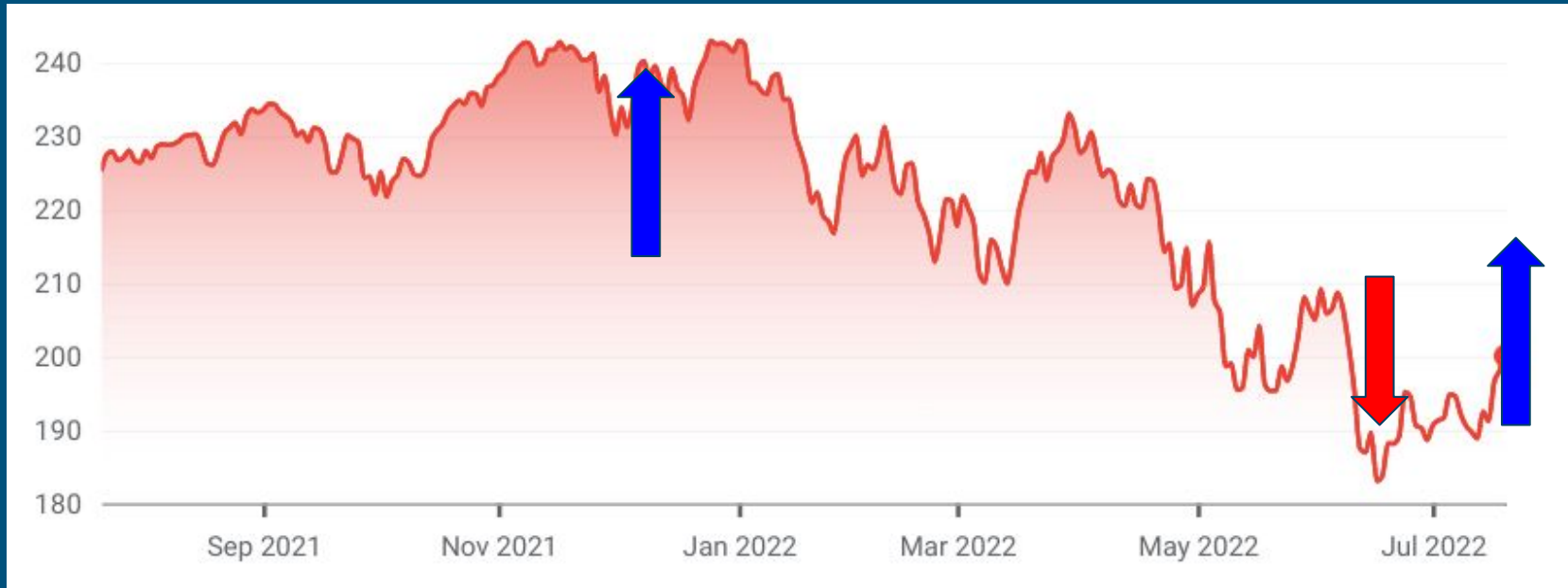
What is “Substantially Identical”?

No clear definition (gray area)

General Guidelines - avoid swapping identical symbols

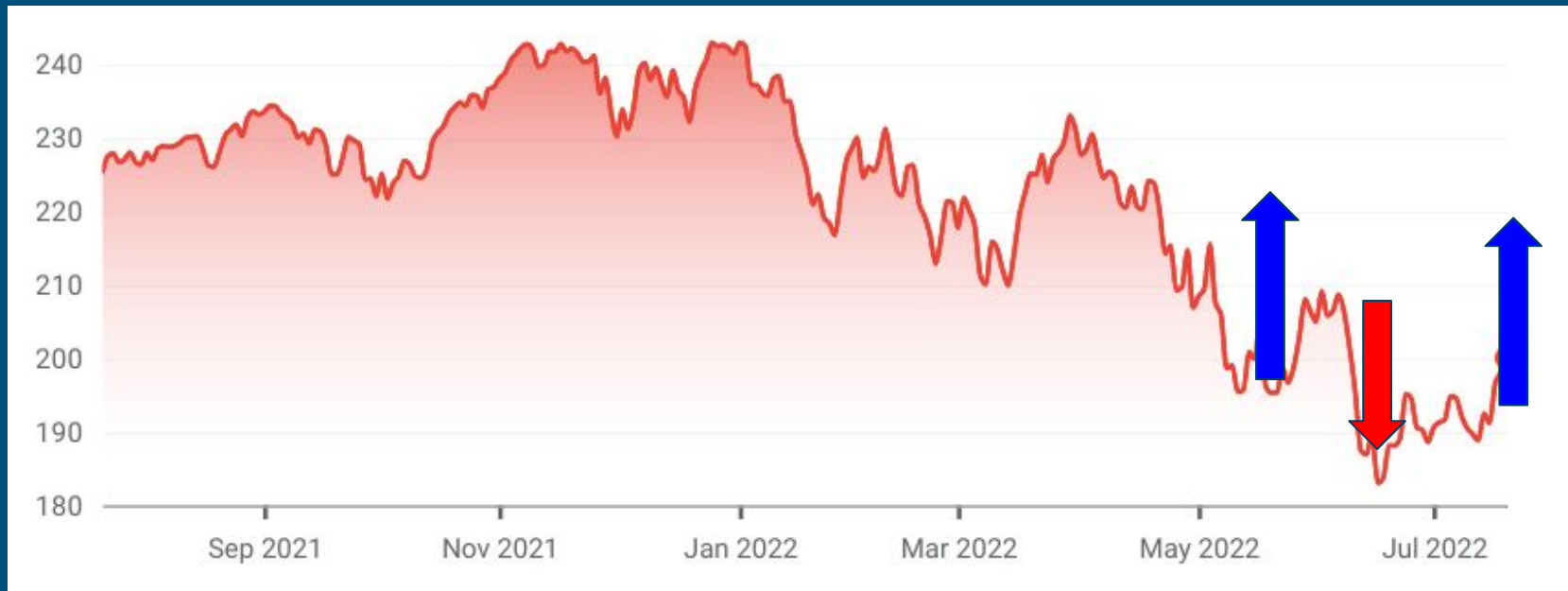
- Same Ticker Symbol eg. AAPL or Options for the same**
- ETFs following same Index eg. SPY and VOO**
- Mutual Fund with similar composition eg. VTSAX and FSKAX**

Wash-Sale Rule Example #1



Wash-Sale Rule Example #2

Sell at a loss and within 61-day window (30 days before or after) the sale Buy substantially identical security.



(sequence of events does not matter)



Effect of Wash-Sale Rule

1. Losses are disallowed

- Example: **\$5,000** in loss cannot be offset against other gains or against Ordinary Income
- Form 1099-B, box 1g will show the amount of wash sale loss disallowed (if traded in the same account)
- Disallowed losses to be reported on Form 8949

2. Disallowed Losses are added back to the cost-basis of shares purchased

BUY						SELL						
Date	Ticker	Quantity	Price	Market Value	Cost Basis	Date	Ticker	Quantity	Price	Market Value	Cost Basis	Reported Loss
12/23/21	XYZ	100	\$240	24,000	\$240	6/30/22	XYZ	100	\$190	19,000	\$190	-0

↓ BUY

Date	Ticker	Quantity	Price	Market Value	Cost Basis
7/21/22	XYZ	100	\$200	20,000	\$250

$$\text{\$5,000} / 100 = \text{\$50 added to cost-basis}$$

Tax-Loss Harvesting Playbook

- Identify positions losing in value especially poor performers in your taxable account
- Define a criteria such as 10-20% loss or minimum \$ value (eg. \$2,000)
- Identify equivalent but not “substantially identical” securities for replacement or rebalance the portfolio or “park” the money in cash etc.
- Calculate the approximate value of losses to offset any gains
- Execute the trade(s)
- Do not purchase substantially identical securities for 31-days

Tax-Loss Harvesting Traps

- ◆ Caution #1 - do not violate wash-sale rule (across all accounts)
 - Beware of any ESPP or RSU events of the company stock
- ◆ Caution #2 - turn-off any dividend reinvestment of remaining positions
- ◆ Caution #3 - could lose on the market upside or timing
- ◆ Caution #4 - beware of the transaction costs in-and-out of trades

Applying Tax-Loss Harvesting to Common Employer Stock Benefits

RSU (Restricted Stock Units)

ESPP (Employee Stock Purchase Plan)

Example of Equity Compensation

RSU - Quarterly Vesting and ESPP - Six-Monthly Purchase

Event Date	Event	Qty	Price	Gross Value	Taxes	Net Proceeds	Net Qty	Discount	Cost Basis	Current Market Price	Market Price	Unrealized Gain/Loss
Jul 15, 2021	RSU	200	120	24,000	5280	18,720	156		18,720	65	10,140	-8,580
Sep 30, 2021	ESPP	50	125	6,250		6,250	50	15%	5,313	65	3,250	-2,063
Oct 15, 2021	RSU	200	130	26,000	5720	20,280	156		20,280	65	10,140	-10,140
Jan 15, 2022	RSU	200	100	20,000	4400	15,600	156		15,600	65	10,140	-5,460
March 31, 2022	ESPP	50	90	4,500		4,500	50	15%	3,825	65	3,250	-575
April 15, 2022	RSU	200	75	15,000	3300	11,700	156		11,700	65	10,140	-1,560
July 15, 2022	RSU	200	70	14,000	3080	10,920	156		10,920	65	10,140	-780
Sep 30, 2022	ESPP	50						15%				
Oct 15, 2022	RSU	200										
					21,780	87,970	880		86,358		57,200	-29,158

Aug 16-29

Nov 16-
Dec 14

What if you had no 61-day window?

Example: Monthly Vesting

- Identify a 61-day window to sell - say Aug, 1 through Sep, 30
- Sell prior purchases at a loss - eg. 200 sh. x \$65 (vs. \$100) = \$13,000; loss = -\$7,000
 - vested price \$100, current price \$65
- Sell RSUs vested and ESPP purchased during this period eg. 250 x \$65 = \$16,250
- Optionally sell stocks that are highly appreciated (original price \$30, current price \$65)
 - eg. 200 x \$65 (vs. \$30) = \$13,000; gain 200 x \$35 = \$7,000

Result:

- Net - no additional stocks acquired during this period
- Capital Gains from selling appreciated stock offset by Capital Losses
- **Caveat: Potential short-term gain / Ordinary Income from ESPP sale will increase taxes**
- Reduce concentration - 450 less shares of XYZ company
- Additional cash to diversify - \$42,250

Tax-Loss Harvesting Traps

- Trading risks - timing and loss of upside
- No tax advantage in lower Capital Gain bracket (0%-15%)
- Carry forward large loss and if taxes are lower in the future i.e. carrying forward does not help
- Reducing the cost-basis may result in higher future taxes
- Selling ESPP may trigger Ordinary Income Taxes (Disqualified Disposition)

More Tax-Loss Harvesting Traps

- Triggering Wash-Sale Rule inadvertently
 - Dividend Re-investments => trigger wash-sale rule
 - Multiple accounts incl. spouses buy/sell may trigger wash-sale rule
- Limited window to sell company stock
- Poor record-keeping
 - Broker 1099-B may not be accurate due to multiple custodians and accounts

Robo-Advisors

Use automated algorithms to perform portfolio diversification, tax loss harvesting and rebalancing

Example: Wealthfront, Betterment, Schwab Intelligent Portfolios, ...

Pros:

- Hands-off, No human intervention
- Potentially generate large amounts of losses
- Lower cost (0.25%-0.50%) compared to wealth advisors (0.75%-1%)

Cons:

- Less flexibility and personalization for tax planning
- Limited use with company stock
- Inadvertently cause wash sale because it is unaware of other portfolios
- Generate large amount of transactions for tax time

Use Tax-Loss Harvesting Strategically

Sell bad investments

Do not wait for the year-end

Diversify, Rebalance & Invest for the long-term

Finally ...

**Taxes should not dictate your portfolio decisions
(Do not let the “tax” tail wag the “investment” dog!)**

Watch for Wash-Sale Rule Traps

Book your free 45-min consultation

<https://www.encoverpersonalfinance.com/schedule>

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[Encover Personal Finance](https://www.encoverpersonalfinance.com)

Q & A

- Loss is loss never we can regain
- What we can do with potential economic risks?
- Current market conditions, what's advice on sell off ESPP vs RSU?

Thank You!



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