



Turning Losses to Your Gain

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It's hard to find any investor who enjoys a market downturn, but there are a few ways to turn these unhappy events to your advantage. Tax professionals recommend that you gift assets to your children or to a trust (out of your estate) and let the assets recover in value in the hands of people with a lower tax rate. You can also move assets out of a traditional IRA into a Roth IRA partial Roth conversion—and be taxed on the (hopefully temporarily) lower valuation of the assets. When the downturn ends, the assets will (hopefully) grow free of all future taxation, meaning lower taxes today could represent a bargain in the future. And if/when a Roth account passes to heirs, they'll be able to take the money out tax-free.

Tax professionals also look at down markets as a chance to sell any assets that are trading below what was paid for them—and use the losses to help offset the taxes owed on gains elsewhere in the portfolio. Think of this as sharing the pain with Uncle Sam. An ETF that is trading above the original purchase price can be sold, harvesting the gain, and offsetting the harvested loss, resulting in zero additional taxes. And up to \$3,000 a year of ordinary income can be offset with carefully harvested capital losses, at least incrementally lowering your tax bill.

Is there a catch? There is always a catch with the IRS rules. When it comes to harvesting losses, the IRS imposes a 30-day 'wash sale' rule, which basically says that when you sell stock, fund, ETF etc. at a loss, you cannot claim that loss if you immediately buy back the same stock, fund, ETF etc. Instead, you have to wait 30 days to replace that exact position. If you want to keep participating in the market, you have to buy a different security—although it could be similar to the one you sold.

When should you deploy these strategies? That's another catch; to get the optimal benefit, you would have to know the exact point when the downturn reaches bottom before it starts to rise again. Unfortunately, nobody knows the date, time or level in advance. When it comes to the future, we're all in the dark.

Sources:

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If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.



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Our physical and mail address:

1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:

Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com