



APRIL 2026 CLIENT QUESTION OF THE MONTH

TAX-LOSS HARVESTING

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The IRS deadline for most taxpayers to submit 2025 tax returns (or file for an extension) is Wednesday, April 15, 2026. For those granted an extension, you have until Thursday, October 15, 2026. (Source: [IRS](#))

When it comes to taxes, market volatility may be used to enhance tax efficiency of portfolios. For example, last April the S&P 500 nearly entered a bear market, declining nearly -19% before rebounding +39% from the lows. This period of volatility, driven by investor concerns around the proposed "Liberation Day" tariffs and potential escalation of global trade tensions, created a window to realize losses.

During inevitable market declines, we try to make lemonade (realize losses) out of lemons (volatile dips in the market) by tax-loss harvesting and rebalancing portfolios. This disciplined approach can provide significant benefits by capturing losses and/or reallocating to more attractive securities that may better position portfolios going forward. *Please remember that no strategy assures success.*

What Is Tax-Loss Harvesting?

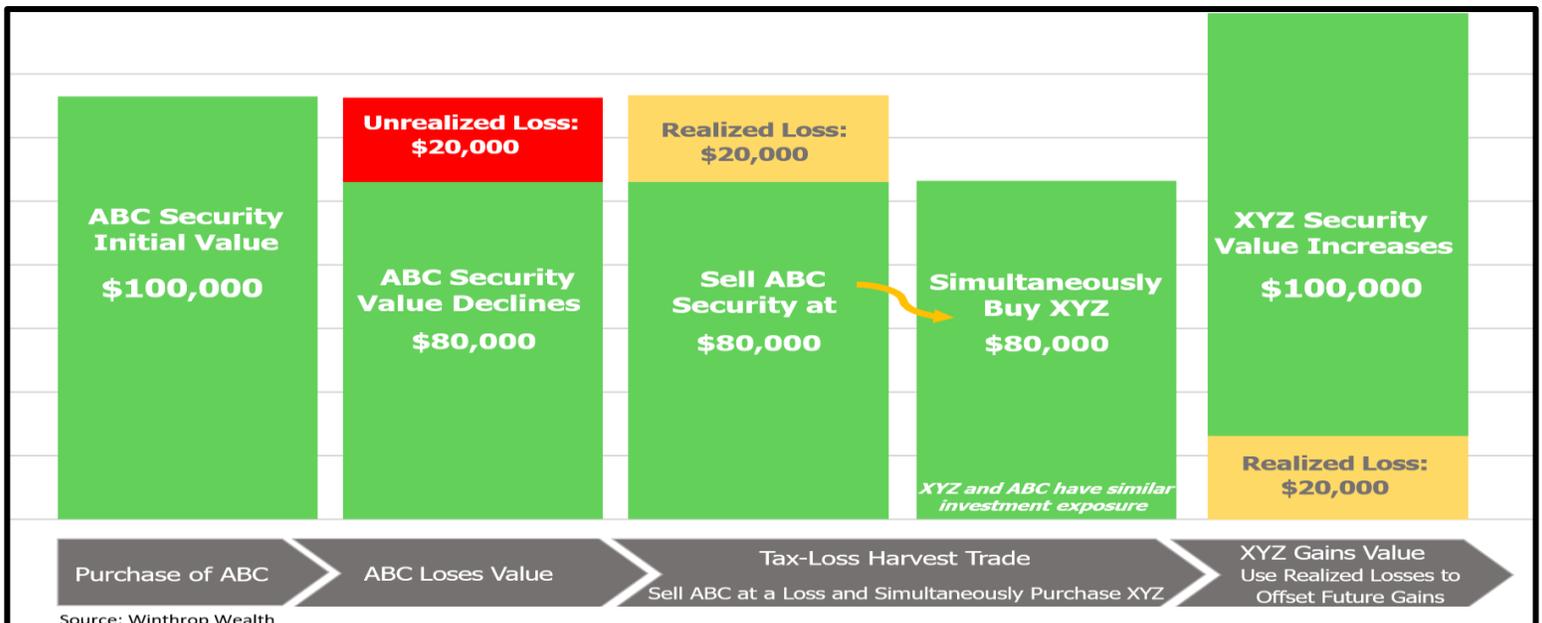
Tax-loss harvesting involves selling an investment (in a non-qualified, taxable account) with a loss and immediately purchasing a different security with similar (but not identical) exposure. *Tax-loss harvesting does not protect against loss and may not be suitable for your individual situation.*

Key Benefits:

- 1. Offsetting Taxable Gains**
 - » The loss on the sold security can be used to offset taxable gains.
 - » If losses exceed gains in a given year, up to \$3,000 for an individual or married filing jointly (\$1,500 for married filing separately) can be used against ordinary income.
 - » Any unused losses can be carried forward to future years*. The IRS rules on capital gains and losses can be found [here](#).
- 2. Remaining Invested While Capturing Tax Benefits**
 - » We sell a security to capture a loss while simultaneously purchasing a different security with similar exposure, keeping clients fully invested.
 - » We can capture losses during declines, and when the market potentially recovers, the new security may also recover PLUS the client has a tax loss to offset future gains.

How does it work?

The illustration below outlines a hypothetical example of tax-loss harvesting where a client buys \$100k worth of ABC security. Two months later, the price declines by -20%. The client can sell the entire position of ABC for \$80k and immediately buy a similar (but not identical) position for that same amount, let's say the new position is XYZ security. Now, assume that the value of XYZ security increases back to \$100k. The total value of the position is unchanged, but the client has a \$20k tax loss that can be used to lower (or eliminate) taxes owed that year and/or against future gains*. *The IRS has put in place the "Wash Sale Rule" to ensure that investors do not sell a security to capture a loss and immediately buy it back. The rule prohibits an investor from selling an investment at a loss and then buying a "substantially identical" security within 30 days before or after the sale.*



The Net Effect

To better understand the value of the strategy, we will compare two hypothetical scenarios where one investor had an active portfolio manager that utilized tax-loss harvesting while the other does not.

Example 1: An investor in a 20% capital gains Federal tax bracket who utilized Tax-Loss Harvesting in her portfolio.

In year 1, Mary had an unrealized loss in her taxable account. To avoid a year-end capital gain distribution from a position with an unrealized loss (and in efforts to mitigate taxes owed), her portfolio manager sold the security and actively harvested \$30k of losses while simultaneously purchasing a reasonably similar investment – replacing the existing exposure within her portfolio. Of those losses, \$3k was applied to lower her adjusted gross income for that year, resulting in a net loss carryforward of \$27k.

The following year the market rebounded, and Mary had a liquidity need of \$100k. The sale generated a \$50k long-term capital gain.

Applying the excess losses from Year 1, the net capital gain of \$23k (\$50k realized gain– \$27k capital loss carryforward from prior tax year) at a 20% Federal capital gains tax rate (\$23k realized capital gain × 20% rate) resulted in a \$4.6k tax liability, saving her \$5.4k in taxes for year 2.

	Capital Gains Tax Rate	Realized Amount	Year-end Tax Savings/Liability	Net Tax Outcome
Year 1	20%	(\$30k) Capital Loss (\$3k) Utilized (\$27k) Carryforward	\$3k Loss x 20% Tax Rate = \$600 Tax Savings	Deduct \$3k of capital losses from ordinary income on the current year's tax return, resulting in \$600 in Federal tax savings
Year 2	20%	\$50k Gain from Sale - \$27k Carryforward = \$23k Capital Gain	\$23k Gain x 20% Tax Rate = \$4.6k Tax Liability	Take \$27k loss carryforward against current year capital gain of \$50k, saving \$5.4k in Federal taxes

This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

Example 2: An investor in a 20% capital gains Federal tax bracket who did not utilize Tax-Loss Harvesting in his portfolio.

In year 1, Jeff had an unrealized loss in his taxable account, but his portfolio manager did not harvest any of the losses. At the end of the year, the position distributed a capital gain of \$10k.

Even though Jeff's account value was down for the year, he still had to pay tax on the income he received. The \$10k capital gain at the 20% Federal capital gains tax rate (\$10k gain x 20% rate) created a \$2k tax liability.

The following year the market rebounded, and Jeff had a liquidity need of \$100k. The sale incurs a \$50k long-term capital gain.

This resulted in a net capital gain of \$50k (\$50k realized gain– \$0 capital loss carryforward from prior year) at a 20% Federal capital gains tax rate (\$50k realized capital gain x 20% rate) resulted in a \$10k tax liability on this transaction for year 2.

	Capital Gains Tax Rate	Realized Amount	Year-end Tax Savings/Liability	Net Tax Outcome
Year 1	20%	\$10k Capital Gain from Distribution	\$10k Gain x 20% Tax Rate = \$2k Tax Liability	No deductions used to offset \$10k capital gain from distribution, owing \$2k in Federal taxes
Year 2	20%	\$50k Capital Gain from Sale	\$50k Gain x 20% Tax Rate = \$10k Tax Liability	No deductions used to offset \$50k capital gain from sale, owing \$10k in Federal taxes

This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

As the scenarios demonstrate, an investor's federal tax situation can be significantly affected by having an active portfolio manager who carefully uses tax-loss harvesting during periods of market volatility. Mary was able to avoid a capital gain distribution by selling a position with losses and utilize \$3,000 of realized losses to lower her AGI (Adjusted Gross Income) in year 1. She also reduced her capital gains tax for year 2 by carrying forward the excess losses – advantages Jeff didn't benefit from. Furthermore, the tax savings allows Mary to keep more money invested for the long term, which may help her potentially benefit from the power of compounding.

Recap

Tax-loss harvesting can provide a silver lining when navigating through the storms of market volatility. Implementing a dynamic process and advanced technology to tax-loss harvest is essential as market declines happen frequently. Since 1928, the S&P 500 has experienced an average peak-to-trough decline of about -10% each year, despite producing a total annualized return of +9.8% over the same period (Source: Bloomberg). While equity markets have historically recovered from recessions and downturns, it is important to consider your risk tolerance, time horizon and liquidity needs, and update your advisor of any changes.

Due to the unpredictable nature of short-term market movements, our investment philosophy places a strong emphasis on maintaining a long-term perspective by staying **D**isciplined, **O**ppportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses. When markets decline, we try to make lemonade out of lemons by tax-loss harvesting and rebalancing portfolios. These activities help capture losses and/or reallocate to more attractive securities which may better position portfolios for the future. *Please remember that no strategy assures success.*

At Winthrop Wealth, we apply a [Total Net Worth Approach](#) to both comprehensive financial planning and investment management. We believe financial planning helps drive the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, seeks to optimize account structures, considers tax mitigation strategies, and helps evaluate financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. *Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.*

Keep in mind that you can deduct net capital losses, which occur when your total capital losses are greater than your total capital gains, from ordinary income, but only up to \$3,000 per tax year (\$1,500 if filing separately as married). Any net capital losses above this limit can be carried forward into future tax years until they are used up or until the account holder passes away.* There's no restriction on how many years you can carry over a capital loss.

**Two states, PA & NJ don't have carryover provisions, which means use or lose. For PA and NJ residents it is not beneficial to tax-loss harvest unless it is strategically done the same year gains are realized.*

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.