2024 · WHAT ISSUES SHOULD I CONSIDER WHEN HARVESTING CAPITAL LOSSES?

ROOTED PLANNING GROUP

GENERAL ISSUES	YES	NO
Do you need to review your portfolio's asset allocation and your risk tolerance prior to doing any tax-loss harvesting? If so, consider coordinating tax-loss harvesting with any needed rebalancing to your portfolio's target asset allocation. Harvesting losses may enable you to optimally rebalance your portfolio at a reduced tax cost by offsetting gains from reducing concentrated or overweighted positions.	☐	☐
Do you currently have realized gains or losses (or existing losses being carried forward from previous years)? If so, consider whether this impacts your tax-loss harvesting strategy.	☐	☐
In the near future, are you planning to sell an asset (e.g., a home or business) that will be subject to capital gains? If so, consider coordinating your sale with any opportunities you may have to harvest losses. If selling a home, be mindful of any capital gain exclusions (e.g., meeting the 2-of-5-years rule) and whether it applies to your situation.	☐	☐

TAX ISSUES	YES	NO
Are you in the 0% capital gains tax bracket? If so, consider realizing capital gains (to the extent that your income remains within the 0% bracket) rather than harvesting losses.	☐	☐
Do you anticipate your tax rate to change in the future? If so, consider how tax-loss harvesting effectively defers capital gains tax by decreasing your cost basis today. If your tax rate increases in the future, harvesting losses could cause you to pay more for those deferred taxes than if you paid them today. Additionally, extra income from selling the security in the future could itself push you into a higher tax bracket.	☐	☐
Do you need to review whether harvesting losses may complement other tax planning goals you have? If so, consider whether harvesting losses may enable you to keep your income low enough for any AGI/MAGI-sensitive tax planning strategies relevant to your situation (e.g., IRMAA, Social Security taxation, premium tax credit, credits/deductions, etc.). (continue on next column)	☐	☐

TAX ISSUES (CONTINUED)	YES	NO
Be mindful of any pending and/or unanticipated capital gains (e.g., property sale, distributions from mutual funds, etc.) that may jeopardize your tax goals.		
Do you need to review how you plan to reinvest your tax savings? If so, consider the amount of tax dollars you saved from harvesting losses, and review ways you could "reinvest" those tax savings for future growth (e.g., make an additional contribution or decrease distributions in your portfolio equivalent or similar to the amount of tax dollars saved).	☐	☐
Do you need to review any state-specific rules that may affect your tax-loss harvesting strategy? If so, consider the following: ■ Many states have limits on (or disallow entirely) the ability to carry forward harvested losses into future tax years. Furthermore, capital gains are often taxed as ordinary income at the state level and may not be subject to the same beneficial tax treatment that other sources of income might within certain states (e.g., Social Security not taxable, retirement withdrawals not taxable up to a certain threshold, etc.). ■ Be mindful of whether you live in a separate property or community property state and understand the subsequent tax nuances of harvesting losses and/or gifting securities that may apply to your situation (e.g., 50% step-up in basis versus 100% step-up in basis at death, step-down in basis issues, etc.).	☐	☐

LONG-TERM ISSUES	YES	NO
Do you ultimately plan to donate your security to charity? If so, consider harvesting any available losses now, as decreasing your basis will have no effect on your taxation if you donate your security to charity in the future.	☐	☐
If harvesting losses creates a carryover loss on your tax return, are you concerned that you will have more losses than you are able to use during your lifetime? If so, consider any capital losses that are not used up by the year of death may be permanently lost. (continue on next page)	☐	☐

LONG-TERM ISSUES (CONTINUED)	YES	NO
Do you ultimately plan to leave your security to someone as an inheritance after death? If so, consider harvesting any available losses now to the extent you will be able to use them during your lifetime, since the lower cost basis will not affect your heirs (who will receive a step-up in basis).	☐	☐
Do you ultimately plan to gift your security to someone while still alive? If so, consider whether it makes sense to harvest any losses prior to gifting the security, since doing so may create a higher tax liability for the recipient. Be mindful of any potential double basis issues that may arise (for non-spouse recipients) when gifting securities at a loss.	☐	☐

IMPLEMENTATION ISSUES	YES	NO
Do you need to plan for avoiding wash sales of securities sold for a loss? If so, consider the following: ▪ Purchasing a "substantially identical" security to the one from which you harvested losses (in the previous 30 days or subsequent 30 days of the sale date) in any of your and your spouse's accounts (including retirement accounts) will trigger a wash sale and prevent you from claiming a deduction on the tax loss. ▪ Consider turning off automatic dividend reinvestments prior to harvesting losses, as reinvested dividends into a security you harvested a loss from may inadvertently trigger a wash sale. ▪ Other automated investment features (e.g., automated purchases, contributions, or rebalancing) in any accounts may also cause an accidental purchase of a substantially identical security and trigger a wash sale.	☐	☐
Do you need to review the capital gain netting rules? If so, consider reviewing the order of priority with capital gain netting (e.g., short-term offsets short-term, long-term offsets long-term, etc.) that may affect your plans surrounding tax-loss harvesting so any net capital gain is taxed at the lowest rate possible. (continue on next column)	☐	☐

IMPLEMENTATION ISSUES (CONTINUED)	YES	NO
Do you need to review any administrative or trading costs that would be incurred by any tax-loss harvesting? If so, consider how those impacts would mitigate the benefits of tax-loss harvesting.	☐	☐
Do you need to review whether the replacement security you've chosen is appropriate for the security being sold at a loss? If so, consider the following: ▪ Review the IRS language surrounding "substantially identical" securities for certain types of investments (e.g., stocks, bonds, and options). For other investments, like mutual funds and ETFs, consider factors like overlap in underlying holdings, correlation of performance, and similarity of the index tracked. Consult your custodian's guidelines on wash-sale rules before making any decisions. ▪ Be mindful of the extent to which your replacement securities may affect your portfolio's goals and risk/return profile (e.g., tracking error, diversification, exposure, expected return, etc.).	☐	☐

Root. Nourish. Grow.

If Money wasn't a barrier, what would your life look like? This is a question we ask each and every client. How would you like your money to support your life? We believe that "Life is about events, supported by your dollars and cents" and at Rooted Planning Group, we know that when your roots are strong, your trunk and branches are well positioned for growth.

We want to ensure you get to that ideal life in the most graceful way possible. So you can save for that big purchase, send the kids off to college, and retire! Rooted Planning Group is a fee only planning group, so we only do what is in your best interest.

A Message from our Founder, Amy Irvine, CFP®, EA, MPAS®, CCFC

I started Rooted Planning Group out of frustration, because I really wanted to help clients build their wealth in a "different" way than the traditional wealth management firm. We are an all-female, ensemble fee-only financial planning firm, and I established our firm to always act as a fiduciary. Our services include cash flow analysis, goal planning, debt reduction and planning, student loan planning, tax planning (and preparation), education planning, investment planning, employee benefits, and risk planning.

We typically work with professional women and couples who fall in the Gen-Y, Gen-X or late-stage baby boomer age range. A fair number of our clients are lawyers, engineers, and small business owners.

It is our greatest desire to help other women feel empowered about their finances. We strive to help people grow their wealth, which sometimes means we start in the negative, with the goal of growing to the positive.

For more information and disclosures about our firm, visit: www.rootedpg.com

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