



## Registered Investment Advisor Firm

©ISSUE XI, VOL. IV -

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NOVEMBER - 2015

### Tis the Season Tax Loss Selling & Other Smart Year-End Tax Strategies

BUY LOW, SELL HIGH! Tax loss selling is one of the few reasons when you might want to actually sell low.

**What is it?** Tax-loss selling is a strategy that investors use to reduce their tax bill. If you own an asset (stocks, mutual funds, ETF's or bonds) that has dropped in value since you purchased it, then you can sell that asset and use the capital loss to offset any capital gains you might have. You must first apply the loss against any capital gains recorded in the current year. If you still have net losses leftover, you can carry them forward to offset capital gains in future years until you use up the losses. Only losses in non-retirement accounts qualify, IRA's and such can't use the loss.

**Is there a deadline?** Yes, for a loss to count in the current year, the trade has to settle on or before December 31<sup>st</sup>.

Because of settlement and holidays it is generally a good idea to sell assets before Christmas. Plan ahead, do not wait for Christmas, you might find a lump of coal in your stocking instead.

**Can I sell and then repurchase the same asset?** If you sell an asset and repurchase it within 30 days, you are prohibited from claiming the loss. This is called a "wash sale" by the Internal Revenue Service (IRS). You cannot get around this by using another one of your accounts or your spouses' accounts; it is still part of the household for tax purposes.

You cannot buy a substantially identical asset either, such as a convertible preferred stock or an option.

**Are there creative ways around the wash sale?** Although the IRS disallows the loss if you buy the same or substantially identical asset, you can buy a similar asset to avoid the rule. As an example, say you owned Delta Airlines (DAL) stock and sold it for a loss. You could buy a similar asset like Southwest Airlines (LUV) stock or

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American Airlines (AAL) stock. With Mutual Fund and ETF's, you buy a similar fund from another fund family. Again be careful of the substantially identical asset.

**Should I wait?** Harvesting tax losses is popular enough that it can have an impact on an asset price. If an asset has fallen substantially during the year, those losses often get worse during the fourth quarter as other sellers employ the same tax loss strategy. Also, selling early enough lets you buy back your asset within the same year, potentially letting you take advantage of the late sellers.

**Are there limits?** You have the ability to use your losses to first offset any capital gains you recognize during the tax year. In addition, you can claim up to \$3,000 in losses to offset other income such as wages and investment interest and dividends. This loss against income can only be used after net losses have been used against current year gains. But if you have more losses than that, you don't lose them forever. The IRS lets you carry those losses forward to future years.

## OTHER YEAR END STRATEGIES

**Tax Efficient Holiday Gifting.** Individuals can gift up to \$14,000 per year (\$28,000 if married) to as many recipients as they wish without estate or gift-tax implications. Gifting appreciated assets can shift taxable gains to individuals in lower tax brackets, and reduce your estate to avoid future estate taxes.

**Smart Gifting to Charity.** If you have appreciated securities held for over one year, you can gift the security to a charity rather than sell the asset and gift the cash. By doing so, either you or the charity has to pay capital gains tax when the security is sold.

### *Late Breaking News*

*The FED once again did not raise interest rates during their recent October meeting. They strongly hinted that they will increase at their December meeting.*

We will all be on the edge of our seats

### [Answer Forum](#)

Nothing new this month.

### [Davis Investment Group](#)

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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