DON'T LET THE "WASH SALE" RULE RUIN YOUR TAX PLANNING

As the end of another year approaches, you're looking for ways to reduce your tax bill. You have a handful of stocks in loss positions. You like the stocks and expect the prices to rebound. Should you sell now at a loss to offset other capital gains, then buy the shares right back again?

Not so fast. A federal tax rule is designed to prevent such "wash sales." Here's what you need to know.

What is the wash sale rule? When you sell a security at a loss and buy a substantially identical security within 30 days before or after the day of sale, the loss is disallowed for current federal income tax purposes. Instead, you add the loss to the cost basis of the replacement stock.

The wash sales rule is not confined to calendar years. When you make December or January sales, you need to look forward or backward between tax years to determine if the wash sale rule applies.

What if you buy and sell securities from separate accounts? The wash sale rule applies per investor, not per account. Selling shares from one account and buying them in another is not a work-around. Brokers track and report wash sales within the same account and include the sales in the gain and loss report to the IRS. However, if the trades are in different accounts, you are responsible for tracking wash sales.

What if you repurchase the securities in your IRA? The loss on the sale is disallowed, and your basis in the IRA is not increased by the disallowed loss.

The bottom line? Avoiding and reporting wash sales can be complex. Contact us for assistance and planning advice that includes harvesting capital losses in a way that will keep you from getting hung out to dry by the wash sale rule.

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