TAX HARVESTING

AN EFFECTIVE WAY TO HELP CLIENTS REDUCE TAXABLE INCOME

Tax harvesting is an effective way to help clients reduce their capital gains tax liability and keep more of what they earn!

Taxes can be one of the biggest drags on investment returns. But often clients don't realize that taxes on their investment returns can actually be managed and minimized.

Trust Company of America's (TCA's) **tax harvesting feature** is a powerful tool that you can employ to lessen the impact of taxes on your clients' taxable portfolios. Just consider:

- Taxes are one of the highest investor costs on taxable portfolios. Short-term capital gains can be taxed at the client's ordinary federal income tax rate up to 39.6%, and long-term capital gains can be taxed at a federal rate of up to 20%, depending on the client's tax bracket.

- TCA's tax harvesting feature enables you to help clients realize short- or long-term losses to offset gains – and the tax savings can be substantial, potentially increasing after-tax returns.

- TCA's tax harvesting feature allows you to provide your clients with significant value and clearly differentiate yourself from the competition.

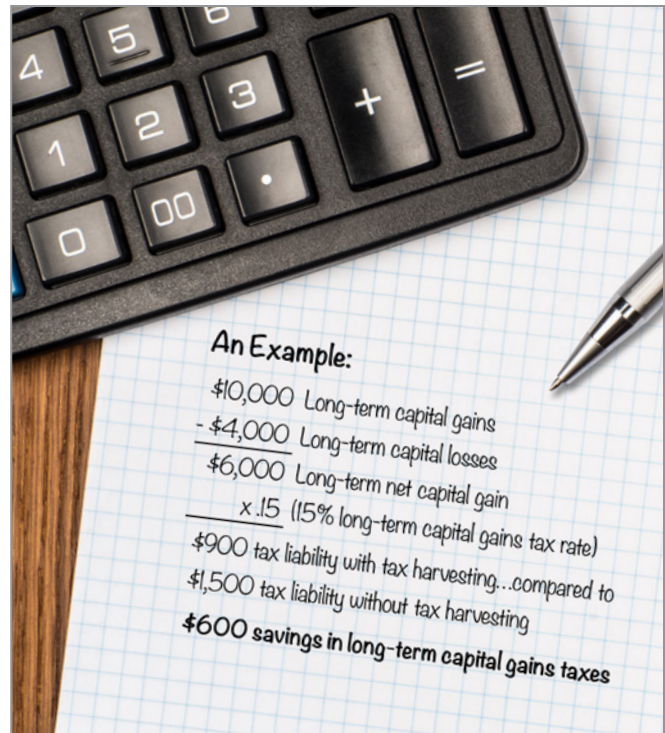### Offsetting gains and the corresponding taxes

TCA's tax harvesting feature enables you to view and sort investments within an account by short-term or long-term losses or gains. By selectively selling specific investments, you can realize gains or losses in the account. Selling investments in a client's taxable portfolio that have dropped in value – i.e., "harvesting" those losses – will generate losses that can be used to offset gains the client has realized. Or, you can help clients realize gains in their taxable portfolios to offset losses from other investments.

Continued on the reverse

Advisors can invest the sales proceeds in an alternative security for the 30-day wash-sale period if they want to maintain market exposure or leave the proceeds in cash. All of TCA's trading tools, including model rebalancing, will prevent the RIA from buying back into the harvested security to avoid wash sales. TCA even provides the days remaining until the wash-sale window expires.

Here's how it works:

For example, say your client has $10,000 in realized long-term capital gains in a taxable portfolio. Say the client also owns shares in a pharmaceutical company that have lost $4,000 in value. Selling the losing position lowers the client's long-term net capital gain from $10,000 to $6,000. At a federal long-term capital gains tax rate of 15%, tax harvesting can save the client $600 in capital gains taxes.

An Example:

$10,000 Long-term capital gains
- $4,000 Long-term capital losses
$6,000 Long-term net capital gain
x .15 (15% long-term capital gains tax rate)
$900 tax liability with tax harvesting…compared to
$1,500 tax liability without tax harvesting
$600 savings in long-term capital gains taxes

Utilizing the tax harvesting feature in Liberty, you can quickly run and analyze different scenarios to determine the tax harvesting strategy that works best for a specific client's account.

Capital losses generated for tax purposes can also extend beyond capital gains. The tax law generally allows you to realize up to $3,000 in capital losses to be deducted from ordinary income each year. For an investor in the 35% federal income tax bracket, for example, a $3,000 loss could reduce his or her federal tax bill by $1,050.

TCA's tax harvesting feature is available in Liberty at no additional cost with no additional paperwork.

To learn more about TCA's tax harvesting feature, please contact your TCA Relationship Manager today.

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