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After-Tax Advisor

The Tax Clock Never Stops

By: Eaton Vance | June 14, 2022

This tax year—like every tax year before it—will end on December 31. This truism means that the opportunity to help your clients improve tax outcomes is time-sensitive. The clock is always ticking, and the end of June marks the halfway point.

The After-Tax Advisor® understands that clients who have already realized capital gains, or might in the months ahead, have a limited amount of time to reduce the taxable amount of these gains with realized tax losses. Some clients may have unused tax-loss carryforwards from previous years, but other clients may not.

How can you spot the best opportunity for harvesting tax losses in the months that remain? The short and unsatisfying answer is you can't. However, there is a better way to "harvest" tax losses:

- Introduce clients to systematic tax-loss harvesting. This approach recognizes that even in rising markets, some stocks in the portfolio may experience temporary declines.
- Look ahead for possible capital gains a client might realize during the remainder of the year. Systematic tax-loss harvesting can help create a reserve of tax losses that the client can use later this year (or in some future year) to reduce the amount of gains that might be subject to taxes.

It's important to help clients understand whether or not different investment vehicles can distribute losses. You can also offer to work with their tax professionals to identify how systematic tax-loss harvesting can improve tax outcomes.

Bottom line: If your existing clients are not already using systematic tax-loss harvesting techniques, have this discussion with them now. After all, the tax clock never stops ticking.

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Tax-loss harvesting involves certain risks including, among others, the risk that the new investment could perform worse than the original investment and that transaction cost could offset the tax benefit. There may also be unintended tax implications.

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