
ETFs: A SMART CHOICE FOR TAX-LOSS HARVESTING

Vanya Sharma – Senior Associate, Capital Markets
11/09/2023

What Is It?

[Tax-loss harvesting](#) involves selling a security at a loss and purchasing another security with a similar investment profile. This strategy enables an investor to maintain the portfolio's positions relatively unchanged while deducting the loss from any gains for that year. The losing security can be repurchased 30 days after the sale, resulting in a reduced tax basis. Essentially, the strategy enables individuals to minimize the tax impact on their investment portfolios. Moreover, it can be employed to decrease ordinary income taxes in a year without capital gains, limited to a loss of \$3,000. Tax-loss harvesting is a prudent strategy to minimize the tax impact on your bottom line. More than mutual funds and stocks, ETFs tend to be more cost-effective for tax-loss harvesting thanks to their lower fees and infrequent capital gains distributions.

Why ETFs?

ETFs facilitate tax-loss harvesting by enabling investors to comply with the Securities and Exchange Commission's (SEC) "wash-sale" rule, which prohibits the repurchase of an identical or substantially similar security within 30 days of selling it at a loss. ETFs, comprising diversified portfolios, offer greater ease in finding identical tracking objectives, such as large-cap or tech-only stocks, while adhering to different underlying indexes to avoid breaching the SEC rule.

Applying a Tax-Loss Harvesting Strategy

Let's assume Investor A just sold 500 shares of a food and beverage company. Investor A chooses to put the post-sale cash into a broader food and beverage sector-focused ETF. In doing so, Investor A avoids the wash-sale rule without compromising the portfolio's original investment thesis and diversification.

What If You Sell at a Profit Instead of a Loss, as Shown Above?

Now, if an investor happens to receive capital gain distributions from an ETF or, simply put, sells the securities at a profit, [a handy tool on WisdomTree's website estimates capital gains for U.S. ETFs](#). Since short-term capital gains, long-term capital gains and ordinary income are all taxed differently, the tool provides an estimate of how all three will look. Of course, none of this is investment advice, and investors should ultimately consult a tax advisor for the best understanding.

Bottom Line

Enhancing the bottom line involves more than solely capital gains. A discerning and efficient investor places great emphasis on using all available resources, including tax-loss harvesting. Tax-loss harvesting serves as a tax-engineering tool to mitigate both short-term and long-term tax liabilities. However, it is important to note that it may result in tax deferral at a later period instead of an immediate tax break. This approach carries the risk of higher taxes in the future. Nonetheless, we believe it remains a wise method to reduce the tax burden on your finances and improve your bottom line.

For more insights, visit our [ETF Education page](#).

Important Risks Related to this Article

Neither WisdomTree nor its affiliates nor Foreside Fund Services, LLC, nor its affiliates provide tax advice. All references to tax matters or information provided here are for illustrative purposes only and should not be considered tax advice and cannot be used for the purpose of avoiding tax penalties. Investors seeking tax advice should consult an independent tax advisor.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

+ [Employing a Tax-Loss Harvesting Strategy](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Tax Loss Harvesting: Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.