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Tax-loss harvesting:
leverage volatility to lower taxes and enhance portfolio value

No one wishes for asset values to drop, but there's a silver lining to losses. Because taxes on gains can be a significant drag on net returns, harvesting losses is a sound a tax management strategy for enhancing overall portfolio performance.

By selling investments that have lost value, you can lower your capital gains taxes thereby increasing your net investment returns. And that may help you reach your investment goals more quickly.

JAMES BERGERON, J.D.
Advisor Education Specialist

How tax-loss harvesting works:

SELL *a security that has underperformed*

Offsetting *short-term* gains (those held less than 12 months) tends to be more valuable than offsetting long-term gains, particularly for high earners. That's because short-term gains are taxed as ordinary income, which for some can be as high as 40.8%.[1] In contrast, the lower capital gain rate (top rate of 20%[2]) applies to *long-term* gains (those held longer than 12 months). For that reason, you may want to focus on those investments you've held for less than a year.

HARVEST *capital losses*

1. An individual investor or married couple filing jointly who have more capital losses than gains can offset ordinary income by up to $3,000 in the current year and carry over the rest to future years. For married individuals filing separately, the deduction is $1,500 in the current year.
2. A loss from one investment can offset realized gains from different investments in the current year.
3. A capital loss may be carried forward indefinitely into future tax years to offset future income or gains.

REPLACE: *Reinvest the proceeds in a similar investment to maintain the portfolio's asset allocation and risk/return profile*

Potential replacement securities:

Individual stock	Actively managed mutual fund or closed-end fund	ETF or index mutual fund
— Actively managed mutual fund — Index ETF or mutual fund — Stock in similar industry	— Active mutual fund, closed-end fund or ETF with same bench-mark, but different manager — Index ETF or mutual fund	— Index ETF or mutual fund with same benchmark, but different manager — Actively managed mutual fund, ETF or closed-end fund

Avoid the wash sale rule

Be aware of the "wash sale" rule, which restricts investors from claiming a loss on the sale of an investment if they purchase a "substantially identical" security 30 days before or after the sale. The greater the holdings overlap and the more similar the prospective returns, the greater the risk of wash sale classification by the IRS. Investors should consult with their financial and tax professionals before reinvesting proceeds from a sale to avoid inadvertently triggering a wash sale.

SEIZE OPPORTUNITIES AS THEY ARISE

Investors who look to harvest losses throughout the year are likely to find more opportunities to leverage losses, compared to those who harvest only at year-end.

Although uneven or down markets provide more harvesting opportunities, investors can take advantage of losses in any market environment to incrementally improve net performance.

UNDERSTAND THE RISKS

Tax laws change, which is why a decision to harvest losses should include careful consideration of your tax situation.

In addition, investors who engage in tax-loss harvesting face the risk that the security they sell could recover. Selling a position at a loss may limit the possibility of participating in near-term potential gains, which may be larger than the tax savings you captured.

START WITH A CONVERSATION

Talking with your financial professional is the first step in identifying how you may be able to convert a losing investment into a winning tax move through tax-loss harvesting. Keep in mind that the tax "tail" should never wag the investment "dog." Leveraging every opportunity to maximize tax savings is less important than achieving your overall investment goals.

Please consult your financial professional for more information. For financial professionals, please contact Nuveen at 800-221-9271. Visit us at Nuveen.com.

Endnotes

1 Inclusive of net investment tax (NIIT), which is levied on the lesser of net investment income or the amount by which modified adjusted gross income (MAGI) exceeds $250,000 for couples filing jointly, $125,000 for married filing separately, and $200,000 for single filers.

2 Exclusive of NIIT.

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