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# Sell at a loss to get a break at tax time

### FINDING HELP



**By Sandy Amann John**  
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**Q:** *I invested in the stock market at the beginning of the summer and my investment has gone down a lot. What should I do? Is there any way to benefit from this situation?*

**A:** It's an investor's nightmare: You purchase shares of stock or a mutual fund, then check the newspaper in a few weeks and find out your investment is headed due south.

As an investor, you probably know that you should put your money in the market for the long term and shouldn't worry about the temporary ups and downs of the market. But in this case, there is a way to use the situation to your advantage, without waiting for the market to recover.

If you sell the stock or mutual fund at a loss, you can use

the amount of the loss at tax time to offset an equal amount of gains on investments. That assumes the shares are held in a taxable account, not a tax-deferred one such as an individual retirement account or 401(k).

If you have no gains, you can even use up to \$3,000 per year in losses to offset ordinary income on your federal

income tax return, according to Bill Kring, a certified financial planner with Financial Network Corp.

With stocks generally gaining rather than losing money in recent years, he added, many people have forgotten about using losses to offset taxes on capital gains because they haven't had any losses.

In some cases, it makes sense to sell at a loss and to take the tax break.

If you bought a couple of hundred dollars worth of stock and it's down 5 percent, it's not worth the effort and expense to sell it for a tax loss that might amount to \$100, he said. But if you have several thousand dollars worth of stock down 10 percent or more, it's probably worth selling it for the loss, which could amount to hundreds of dollars at that point.

"This is a situation where you have to act quickly when the stock drops," Kring said, because the market is unpredictable and could bounce back quickly. And once you sell, you want to reinvest that money in another stock or mutual fund, so you are still in the market and participate in any gains.

It's important to make another investment with that money, "otherwise, you're just buying high and selling low," he added.

You might even want to reinvest the money in the same stock — after all, you purchased it because you believed it would perform well in the long term. However, to avoid what is known as the "wash sale rule," you can't buy the same stock or fund back for 31 days, the planner said.

Kring, president-elect of the Georgia Society of the Institute of Certified Financial Planners, sketched out a number of scenarios that might take place when you sell an investment at a loss.

■ If you sell a mutual fund, you can take the money and buy shares of another mutual fund the same day. If you buy another fund in the same mutual fund family, you probably won't even face any transaction fees in the process, Kring said.

■ If you sell a stock and want to reinvest the money quickly, without waiting for the "wash sale" period to expire, the planner suggests buying what he calls "a proxy." In other words, buy a stock in the same industry that has prospects similar to the one you just sold. If you sell Home Depot, you might buy Lowe's, for example, he said, or you could replace one pharmaceutical stock with another.

■ If you believe the stock you just sold is still a good investment, you can wait 31 days and buy it back. Of all your options, this could be the most risky, because there's a chance the stock could rebound in a month. Your goal, Kring noted, should be to buy the stock at the price you sold it for or less, so that you've taken advantage of the tax break without paying anything additional for the stock.

Of course, any time you buy or sell stock, you'll face a commission. That's one reason why selling when your stock has fallen only a small amount doesn't make much sense. But if you get a large tax break for \$20 or \$30 in commissions, buying and selling might be a good move, Kring said.

If your losses exceed your gains by more than \$3,000 in one year, you can carry the excess loss over to the next tax year. There is no expiration date, so losses can continue to be carried over and used against gains or income in the following years, until the losses are used up, he said.

### About the planner



**Bill Kring** is a certified financial planner with Financial Network Corp.