Eaton Vance

Harvest Tax Losses Midyear to Help Grow Returns

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Upon hearing the term tax-loss harvesting, the practice of strategically selling assets that have experienced a decline in value to offset capital gains from other investments, your clients likely think of year end. As an After-Tax Advisor, you know the importance of a year-round tax-loss harvesting strategy. Utilize mid-year check-ins to remind clients of the ways they can minimize their tax liabilities and help maximize returns with ongoing tax-loss harvesting.

Start the conversation by discussing the common types of investment vehicles, their tax implications and whether they can actively harvest losses at midyear. Let's review a few of them:

Mutual funds

Mutual fund portfolio managers make investment decisions on behalf of all shareholders. Individual investors have no control over the timing and magnitude of capital gains within the fund. Mutual funds are required by law to distribute capital gains to their shareholders. If the manager sells securities at a profit, shareholders may be subject to capital gains taxes even if they didn't personally benefit from the gains. These capital gains distributions are taxable to the shareholders even if they reinvest the distributions back into the fund. This can result in an unexpected tax liability for investors, thereby reducing their after-tax returns.

Exchange-traded funds (ETFs)

ETFs can be more tax efficient than mutual funds because they're expected to have fewer taxable events. ETFs tend to have lower portfolio turnover than actively managed mutual funds, which helps to reduce capital gain recognition. ETFs also offer in-kind creation and redemption, meaning that when an ETF needs to meet redemptions or create new shares, it can do so by exchanging a basket of underlying securities instead of selling those securities and potentially triggering a gain recognition event.

Separately managed accounts (SMAs)

Unlike mutual funds and ETFs, investors hold individual stocks in a SMA. This gives them the flexibility to time the recognition of gains and to selectively sell stocks to realize losses when applicable. This approach allows for precise control over the timing and magnitude of tax events.

Remind clients that tax-loss harvesting is a year-round strategy that can help reduce tax liabilities and enhance after-tax returns.

We think about the impact of taxes year round to help you do the same

Visit eatonvance.com to explore our suite of calculators with clients who want answers to tax questions like these:

- What could I pay in taxes on my investments?
- What is the potential value of systematic tax-loss harvesting in a rising interest rate environment?
- How should I deal with concentrated stock positions?

Keep the conversation going

To learn more about having more meaningful conversations with clients, visit the Advisor Institute at **eatonvance.com.**

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