ETFs—A useful tool for executing year-end tax strategies

Potential volatility in the financial markets may result in many of your clients facing investment losses in some areas of their portfolios. As the year comes to a close, it’s a good time to assess your clients’ portfolios for tax losses that can be harvested. The current tax law is structured to provide long-term investors with some tax relief in periods of market decline.

Help your clients reduce their tax liability and reinforce your value as an advisor

- Use losses to offset capital gains incurred during the current tax year.
- Use excess losses to offset ordinary income, up to a maximum of $3,000 per year.
- Carry forward unused losses to offset realized gains in the future.

*Contact a professional tax advisor about specific individual tax situations prior to implementing any tax-loss strategy.*

Carefully consider the wash-sale rule

If you are going to execute a tax-loss harvesting strategy, be aware of the 30-day wash-sale rule. The IRS rule states that in order to harvest a loss, an investor must wait 30 days before repurchasing the same security or another security that is “substantially identical.” If your client doesn’t want to be out of the market that long, make sure the underlying index of the new fund or ETF is considerably different from that of the original investment.

ETFs can be useful in executing smart portfolio tax planning

ETFs are not only tax-efficient, but they are also a potentially useful tool when considering the tax implications of your client’s portfolio. Consider selling a less diversified, higher-cost fund that has experienced a price decline and buying an ETF with similar market exposure to realize a capital loss and possible lower tax liability. At the same time as the sale, you buy an ETF with a high correlation to the original investment. Use the Find similar Vanguard products tool on advisors.vanguard.com to determine which Vanguard products have similar characteristics and historical performance.
Your clients have the opportunity to simultaneously achieve three goals:

- Harvest losses to lower tax liabilities.
- Remain fully invested within their chosen investment strategies.
- Potentially improve the future tax efficiency of their overall portfolios by using ETFs.

Vanguard’s full lineup of broadly diversified, low-cost ETFs can help you implement clients’ year-end tax strategies.

For more information on Vanguard funds and Vanguard ETFs, visit our website or call us to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

All ETFs are subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against loss.

The information contained herein does not constitute tax advice and cannot be used by any person to avoid tax penalties that may be imposed under the Internal Revenue Code. Each person should consult an independent tax advisor about his/her individual situation before investing in any fund.

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