August 2021 Client Profile

At the suggestion of a friend, Bruce started day trading stocks in his brokerage account. He's had fun and made quite a bit of money, but has also lost money. Then he received an unexpected $20,000 tax bill due to numerous wash sales.

To prevent taxpayers from selling securities for no other reason than to generate a loss that reduces their taxable income, the IRS created the wash sale rules. In short, if you sell a security at a loss and then within 30 days before or 30 days after that sale, you purchase the same or substantially the same security, you've generated a wash sale and triggered those rules.

Wash sale rules prevent you from immediately recognizing the loss. Instead, the loss is added to the cost of the repurchased securities. This, in effect, delays recognition of the loss until you sell the repurchased securities. So, if you're counting on these types of short-term sales to offset your gains, like Bruce, you'll be in for an unpleasant surprise at tax time.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

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