

# Selling securities by year end? Avoid the wash sale rule

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If you're planning to sell assets at a loss to offset gains that have been realized during the year, it's important to be aware of the "wash sale" rule.

## How the rule works

Under this rule, if you sell stock or securities for a loss and buy substantially identical stock or securities back within the 30-day period before or after the sale date, the loss can't be claimed for tax purposes. The rule is designed to prevent taxpayers from using the tax benefit of a loss without parting with ownership in any significant way. The rule applies to a 30-day period before or after the sale date to prevent "buying the stock back" before it's even sold. (If you participate in any dividend reinvestment plans, the wash sale rules may be inadvertently triggered when dividends are reinvested under the plan, if you've separately sold some of the same stock at a loss within the 30-day period.)

The rule applies even if you repurchase the security in a tax-advantaged retirement account, such as a traditional or Roth IRA.

Although the loss can't be claimed on a wash sale, the disallowed amount is added to the cost of the new stock. This means the disallowed amount can be claimed when the new stock is finally disposed of (other than in a wash sale).

## Here's an example

Let's say you buy 500 shares of XYZ Inc. for \$10,000 and sell them on November 5 for \$3,000. On November 29, you buy 500 shares of XYZ again for \$3,200. Because the shares were "bought back" within 30 days of the sale, the wash sale rule applies. Accordingly, you can't claim a \$7,000 loss from the sale of the shares on November 5. Your basis in the new 500 shares is \$10,200 (the \$3,200 actual cost of the November 29 purchase plus the \$7,000 disallowed loss).

If only a portion of the stock sold is bought back, only that portion of the loss is disallowed. So, in the above example, if you'd only bought back 300 of the 500 shares (60%), you would be able to claim 40% of the loss on the sale (\$2,800). The remaining \$4,200 loss that is disallowed under the wash sale rule would be added to your cost of the 300 shares.

If you've cashed in some big gains in 2019, you may be looking for unrealized losses in your portfolio so you can sell those investments before year end. By doing so, you can offset your gains with your losses and reduce your 2019 tax liability. But don't run afoul of the wash sale rule. Please contact us if you have any questions.

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