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Did Your Financial Advisor Help You Lower Your Taxes in 2022?

If not, it may be time to switch.

Joe Globensky
Financial Advisor

As a financial advisor, my clients entrust me with helping them make key decisions in their financial lives. Some of these choices they have complete control over, such as when they retire, how and where they live in retirement, or how much they donate to charity. While I can provide good counsel and advice on what to evaluate in the decision-making process, they have final say.

But when it comes to managing their investments, most clients who work with a financial advisor do so because they either don't trust themselves to make good decisions or, they prefer to spend their time on something else. And while performance is one benchmark of investment success, there are other ways your financial advisor can add value to your relationship.

A key tax management strategy that we use in our client portfolios can add significant value for our clients. This strategy is called tax-loss harvesting, and 2022 was a perfect year to take advantage of it. Let's look at some key points about tax-loss harvesting:

- It is for taxable investment accounts, not retirement accounts.
- It can be done at any time, or multiple times, during the year.
- If done properly, your asset allocation doesn't change.
- The benefits can last several years.

Let's look at an example.

Assume on January 1, 2022, you owned $20,000 worth of an equally-weighted S&P 500 exchange traded fund (ETF). This is an ETF that owns all 500 stocks in the S&P 500 index, in equal weights. Let's assume through September 30, 2022, the year-to-date total return of the fund was -20%. So, you were holding an unrealized loss of $4,000 as of September 30, 2022.

Using a tax-loss harvesting strategy, you, or your advisor, could have sold the ETF referenced above and re-invested the proceeds into a market-cap weighted S&P 500 ETF. A similar fund that owns all 500 stocks in the S&P 500 but based on market-cap weight instead of equal-weight.

You still own a similar investment, but different enough not to trigger wash-sale rules, so you were able to harvest $4,000 in now realized capital losses. These capital losses can be used to offset realized capital gains. Since 2022 was a down year for both stocks and bonds, maybe you didn't have any realized gains. Then you could use up to $3,000 of the loss to offset income on your tax return. If you were in the 22% tax bracket, this strategy would have saved you $660 in federal income taxes. With no change to your asset allocation, and you're still invested for when the market recovers.

What happens to the other $1,000 of loss you did not use? You get to carry it forward to use in future years.

While this is one example of a tax strategy we use when beneficial to our clients, at **Broadway Graham Wealth Partners**, tax planning is a key component of our service offering. Providing tax analysis on **Roth IRA** conversions, evaluating the tax benefits of retirement or deferred compensation plans, and **helping self-employed professionals save on taxes**, are just a few of the ways we help clients manage their tax situation.

If you would like to take advantage of a complimentary, no-obligation tax analysis from one of our financial advisors, you can call us toll-free at (844) 305-7670 or click the button below to book an appointment.

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