CR O'Donnell & Associates
Retirement Planning Strategists

When Markets Decline: Four key tax-efficiency strategies to consider during a market downturn

1. **Harvest Long-term Capital Losses**
   Doing so can offset a client's long-term capital gains from the same year. If an investment in a taxable account has been held sold at a gain earlier in the year before the market declines, taking a strategic long-term loss could help offset the taxes on the gain.

   Up to $3,000 of capital losses can be used to offset ordinary income each year. You can also carry forward any capital loss into future tax years until all of it has been offset by future realized capital gains. *Please Note: short term losses are subject to different rules.*

2. **Exit or Reduce a Highly Appreciated Holding**
   If you have an investment that has grown way above its base value (which is the goal, usually) but selling it would lead to a large tax bill, you could consider harvesting a significant loss on other assets and create an opportunity to offset a long-term capital gain on the highly appreciated one.

   Another possibility is if you have 0% capital gains you could sell some of your shares and immediately rebuy them, effectively getting a free step-us basis. Retirees in the 15% capital gains bracket may find it more tax efficient to draw income from a stock sale rather than a source subject to marginal tax rates.

3. **Roth Conversions**
   This is when you convert a portion of your traditional IRA to a Roth IRA. There may be advantages in the long term to having money in a tax-free (rather than tax-deferred) account. Under current tax law, Roth IRAs do not have required minimum distributions (RMDs) whereas traditional IRAs do and you must take annual withdrawals starting at age 72. This extra income can put you into a higher tax bracket. Shifting some assets to a tax-free account means you take the tax hit up front and it could mean more savings and growth in the future. Do any of us think taxes will go down in the future? Note: Taxes must be paid on a converted fund but the value is down so taxes are less than they'd be if the Roth conversion was done at market peak. The hope is that the funds in the Roth will grow and is 100% tax free at withdrawal by you or your loved ones when you pass.

4. **Life Insurance**
   If you want to ensure your heirs receive a specific amount of inheritance, life insurance may be a suitable solution. In a market downturn, a retiree over age 59 ½ could consider withdrawing from an IRA and buying life insurance. Taxes will be owed on the IRA withdrawal but assuming that the value of that account is down at the time, the tax would be lower than at market peak. When the insured client dies, the goal of leaving a financial legacy will be achieved with an income tax-free death benefit.

Nationwide Insurance Contributed to this article. Questions? Call Christine O'Donnell at 720-470-7250.