Ally Invest Advisors
Personal Advice and Guided Advice
Tax-Loss Harvesting

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Tax-Loss Harvesting ("TLH") is a service of Ally Invest Advisors where we sell a security from your portfolio at a loss and replace it with a different but similar security. The loss can potentially be used to reduce your taxes on capital gains and possibly ordinary income.

How might TLH benefit me?

When you file your tax return, you are allowed to offset realized capital gains for the year with realized capital losses, reducing the tax liability on those gains. If you do not have any capital gains, or if your losses exceed your gains, you can use the losses to offset your taxable ordinary income, up to $3,000 per year. If any losses remain after offsetting your capital gains and income, you can carry them forward to future tax years and apply them in the same fashion (i.e., capital gains first, then up to $3,000 of income).

How does TLH work?

Each day, our system reviews your account for tax lots that have lost value beyond a certain threshold. We then attempt to sell any such lot to realize the loss and use the proceeds to purchase a predetermined, alternate security with a similar risk and objective profile. We can't buy the same security we sold because that could result in a wash sale under the tax code, which would prevent you from using the loss to offset any gains or income that year.

We carefully select the alternate securities used to replace the ones that were originally chosen for your recommended portfolio. We seek replacement securities that keep your portfolio generally in line with its target allocation while at the same time are different enough from the original securities to avoid a wash sale. We review our choices of replacement securities on an ongoing basis for quality and appropriateness.

You will remain invested in the alternate security unless:

1. We perform a liquidation of some or all of your account, either at your request or to generate cash for our regular fees;
2. We rebalance your portfolio because it has drifted from the target allocation; or
3. Changes in your circumstances cause us to move you to a different portfolio model.

Tell me more about wash sales.

A wash sale occurs when a taxpayer sells a security at a loss but purchases the same or substantially identical security anytime from 30 days before through 30 days after such sale. The IRS does not allow deductions on wash-sale losses for current tax reporting purposes. Instead, the loss amount is incorporated into the cost basis for the new security, and its holding period is extended by the holding period of the original security. For more information on wash sales generally, please consult IRS Publication 550.

We attempt to avoid wash sales at the account level only, meaning we do not consider trading activity in any of your other accounts, whether they are held at Ally or elsewhere. The IRS, however, considers all your trading activity (and potentially your household members' activity as well) when determining whether a wash sale has occurred. As a result, a trade placed in one account may inadvertently create a wash sale in another account. You should be aware of investments in all your accounts to determine if you run the risk of triggering wash-sale consequences.

Which accounts are eligible for TLH?

The TLH service is available for non-qualified Personal Advice accounts only. This excludes any type of tax-deferred or tax-exempt account, such as a traditional IRA, Roth IRA, or Coverdell ESA.

You're eligible to enroll in TLH regardless of account size, and the service will begin once you have deposited at least $1,000 into the account.

Is TLH right for me?

TLH can benefit many investors, but it may not be appropriate for everyone. Here are some things to consider when deciding if TLH is right for you:

- You are more likely to benefit from TLH if you have significant capital gains. The primary benefit of TLH is the ability to reduce taxes on capital gains by offsetting them with realized losses. So, the more gains you have, the greater the amount you can offset. If you enroll in TLH, we will review your portfolio daily to look for TLH opportunities, which means you can realize losses throughout the year that might not necessarily be available at year end.
- You are more likely to benefit from TLH if you have significant taxable income. A secondary benefit of TLH is the ability to reduce taxes on ordinary income. So, the more taxable income you have, the more you can offset that income, up to $3,000. Also, if your losses after offsetting your capital gains exceed $3,000 for the year, you can carry those losses over to subsequent tax years to offset future capital gains and up to $3,000 per year in taxable income.
- Conversely, you are less likely to benefit from TLH if you do not have significant capital gains or taxable income.
- You are less likely to benefit from TLH if you plan to make frequent withdrawals or foresee changes to your circumstances that would cause us to change your recommended portfolio. We prioritize any withdrawal instructions you give us, regardless of the potential tax consequences. The same is true for any trades we have to make as a result of a change to your recommended portfolio. So, the more these types of transactions occur in your account, the greater the potential for a wash sale to occur, which would diminish both the opportunities for, and the benefits of, TLH.
- You are less likely to benefit from TLH if you transact in your other accounts in the same ETFs held in your TLH account. This is because TLH depends on our ability to avoid wash sales, and we only monitor for wash sales based on activity within a single account. As an example, if we sell an ETF in your TLH account to harvest a loss, but you purchase that same ETF in your self-directed account within the period from 30 days before through 30 days after the sale, you will not be able to use that loss to offset your gains that year, since it will be deemed a wash sale by the IRS.

There is no guarantee that TLH will reduce your taxes in any given year. Accounts utilizing TLH will also experience different performance than accounts that do not, including potentially lower overall performance and higher risk exposure.

AIA does not provide tax advice. You should carefully consider the risks of participating in the TLH service. We recommend that you consult with your personal tax professional before engaging in any tax strategy, including TLH.

How do I enroll in TLH?

Contact your Senior Financial Advisor to enroll (or unenroll) in TLH.