

Tax-loss harvesting: How can it lower your tax bill?

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Key takeaways

Tax-loss harvesting can potentially lower your tax bill by using portfolio losses to offset gains.

An underperforming investment can be replaced with one that's expected to deliver better returns.

Invesco has 225+ ETFs across asset classes that could make good replacement options.

Investments sometimes lose money. But underperforming investments have a potential bright side. Tax-loss harvesting uses your capital losses to help reduce the tax bill on your capital gains. What is tax-loss harvesting, and how can it work for you?

Tax-loss harvesting is a strategy for managing a portfolio. An investor sells an investment at a loss to offset gains and taxable income, resulting in tax savings. The sold investment is then replaced with a similar one to maintain the intended asset allocation and expected potential returns.

1. Sell investment for a loss

This step is as simple as it sounds: Sell an underperforming investment — such as an individual stock, a mutual fund, or an ETF — for less than you purchased it.

2. Harvest the investment loss

Here's where your investment losses can potentially be beneficial: You can use your losses to offset the capital gains on another investment, helping to reduce your tax obligations. If you have more losses than gains, you can use up to \$3,000 to offset the taxes on the gains.

Don't have any gains? That's okay. You can still use your losses to offset the taxes on your ordinary income, up to \$3,000 in the current year.

Did you lose more than \$3,000? You can carry over your losses into future tax years in \$3,000 increments.

3. Replace your investment

By selling your underperforming investment, you now have cash to invest in something else. The key phrase here is "something else."

If you sell a security and harvest a tax loss on that sale, the Internal Revenue Service (IRS) prohibits you from buying a "substantially identical" security within 30 days before or after the sale of your losing investment. (This is called the "wash sale" rule.)

However, that doesn't mean you have to buy an investment in a completely different industry. For example, if you sold tech stock to harvest a tax loss — but still want tech exposure — you could potentially buy an ETF focused on the tech industry. (Just make sure to consult your tax advisor first.)

Invesco ETFs could potentially be an efficient replacement investment option. We have 225+ ETFs, and 93% of our equity ETFs haven't made a capital gain distribution in the last five years.¹

Conclusion

If you're faced with an underperforming investment, talk to your financial professional and your tax advisor. Tax-loss harvesting may be the right strategy for you.

Next steps

View our tax-loss harvesting reference guide.

Source: Invesco, as of 12/31/25. Although it is not Invesco's intention, there is no guarantee a capital gain will not be distributed.

- September 18, 2026
- July 7, 2025

There are risks involved with investing in ETFs, including possible loss of money. Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index. Both index-based and actively managed ETFs are subject to risks similar to stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Index. The Funds are subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Funds.

Invesco does not provide tax advice. Investors should always consult their own legal or tax professional for information concerning their individual situation.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Diversification does not guarantee a profit or eliminate the risk of loss.

Investments focused in a particular industry or sector, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

Stocks of medium-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

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