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# An Empirical Evaluation of Tax-Loss-Harvesting Alpha

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Pages 99-108 | Published online: 30 Jun 2020

Cite this article

<https://doi.org/10.1080/0015198X.2020.1760064>



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## Abstract

Advances in financial technology have made tax-loss harvesting more feasible for retail investors than such strategies were in the past. We evaluated the magnitude of this “tax alpha” with the use of historical data from the CRSP monthly database for the 500 securities with the largest market capitalizations from 1926 to 2018. Given long-term and short-term capital gains tax rates of 15% and 35%, respectively, we found that a tax-loss-harvesting strategy yielded a before-transaction-cost tax alpha of 1.08% per year for our sample period. When the strategy was constrained by the “wash sale rule,” the tax alpha decreased from 1.08% per year to 0.82% per year.

Disclosure: The authors report no conflicts of interest.

Editor's Note

This article was externally reviewed using our double-blind peer-review process. When the article was accepted for publication, the authors thanked the reviewers in their acknowledgments. Andrew Berkin and one anonymous reviewer were the reviewers for this article.

Submitted 3 February 2020

Accepted 14 April 2020 by Stephen J. Brown

## Acknowledgments

Research support from the MIT Laboratory for Financial Engineering is gratefully acknowledged. We thank Anton Anastasov for excellent research assistance; Tom Brennan, Lisa Goldberg, and Nathan Sosner for helpful comments and discussion; and Jayna Cummings for editorial assistance. The manuscript was improved by the editors of the Financial Analysts Journal, Stephen J. Brown and Steven Thorley, CFA. The views and opinions expressed in this article are those of the authors only and do not necessarily represent the views and opinions of any other organizations, any of their affiliates or employees, or any of the individuals acknowledged above.

## Notes

<sup>1</sup> A wash sale is a sale of a security at a loss and a repurchase of the same or a substantially identical security shortly before or after. Losses from such sales are not deductible in most cases in the United States.

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