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How to turn appreciated stock into tax savings with gain harvesting'

By Gregory Kanarian

Around December, advisors often look for tax-loss harvesting opportunities to offset clients' realized gains and reduce their tax bills.

But January can be an ideal time to employ a lesser-known but equally powerful strategy for managing taxes.

Tax-gain harvesting is a tax-motivated maneuver that involves intentionally selling appreciated securities to lock in gains at favorable tax rates. Early in the year is ideal for harvesting gains from concentrated positions and reinvesting the proceeds in diversified portfolios or via systematic loss-harvesting strategies.

Reinvesting resets the cost basis to current market values, which can meaningfully reduce the future tax burden on appreciating assets. With gain harvesting, the wash sale rule doesn't apply, and the same security can be repurchased immediately without waiting 30 days.

Gain harvesting is especially effective for clients experiencing low-income years, those ready to diversify out of concentrated positions and those seeking to maximize a dependent child's annual unearned income threshold before the "kiddie tax" applies.

Filling the 0% long-term capital gains bucket

Advisors should watch for gain-harvesting opportunities when clients are in lower-than-normal tax brackets — for instance, after a layoff or in the gap years between retiring and claiming Social Security or in taking RMDs.

In low-income years, investors can use the 0% long-term capital gains rate, which is lower than the 10% and 12% rates for wages and short-term gains. The goal is to realize long-term gains tax-free up to the 0% bracket ($49,450 for single filers, $98,900 for married filing jointly in 2026).

For example, a single filer under 65 with a $40,000 salary and the standard deduction has $24,250 in taxable income and owes $2,672 in federal taxes. With the 0% capital gains bracket at $48,350 in 2025, this filer can realize $24,100 in long-term gains tax-free. If they realize $100 more, only the amount above the bracket is taxed at 15%, resulting in $15 of additional tax.

On the other hand, failing to reset the cost basis higher when excess capacity exists at the 0% bracket can result in higher future tax bills when those gains are realized.

Gregory Kanarian, investment strategist at Natixis

One-two punch for concentrated positions

A concentrated stock position can ruin an advisor's best laid financial plan. The tax burden of selling a low-basis position can paralyze clients and keep them invested in a suboptimal portfolio.

Having an annual target for net gains — a "capital gains budget" — can help clients de-risk and diversify out of a concentrated position. Since these gains are unlikely to coincide with low-income years, the capital gains rate will likely be 15% or 20%, creating a tax liability.

Tax-loss harvesting vs. tax-gain harvesting

	Tax-loss harvesting	Tax-gain harvesting
Purpose	Realize losses to offset gains	Realize gains at lower tax rates
Timing	Systematically throughout the year and at year-end	Case specific, but typically early and late in the year
Repurchase rules	Repurchasing the same or "substantially identical" security within 30 days violates the wash sale rule, disallowing the loss	Can repurchase the same security immediately. The wash sale rule doesn't apply
Cost basis	Decreases cost basis	Increases cost basis
Future tax impact	May increase future tax burden	May reduce future tax burden

Source: Greg Kanarian

For this reason, gain harvesting can dovetail nicely with tax-loss harvesting. Consider a client with a $100,000 long-term position in Nvidia with a $50,000 cost basis. If they sell it, they'll book $50,000 in gains and have $100,000 to reinvest into a diversified portfolio. Selling early in the calendar year affords them a year's worth of market volatility to harvest losses and reduce net capital gains.

Long-only direct indexing and tax-aware long-short strategies are popular systematic tax loss generators. Direct indexing can generate modest losses annually, depending on market volatility. Tax-aware long-short strategies expand the loss-harvesting repertoire by adding leverage and a short book. This provides the ability to harvest losses more often, to a greater extent and across bull and bear markets.

Special situation with the kiddie tax

Gain harvesting can also apply on a smaller scale. For my kids' UTMA accounts (custodial accounts with assets owned by the minor), I harvest gains up to the $2,700 dependent child unearned income threshold (applicable in 2025 and 2026) at year-end and repurchase the shares immediately.

The first $1,350 is tax-free because it's covered by their standard deduction, and the next $1,350 of unearned income is taxed at the child's rate of 0% for long-term gains. Results change if the child has earned income, however.

Later, when withdrawals are needed, embedded gains will be less compared to a buy-and-hold strategy that didn't take advantage of the annual "use-it-or-lose-it" unearned income threshold.

Gain harvesting vs. the dip

With tax-loss harvesting, there's a risk that the security rebounds during the 30-day wash-sale period. With gain harvesting, that risk doesn't exist unless you let it.

The same security can be repurchased immediately. But once sold, you may be tempted to wait for a better price. After three consecutive years of double-digit returns in the S&P 500, many believe a dip is inevitable. Nevertheless, remaining disciplined and executing on the plan is better than trying to time the market.

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Tax-loss harvesting is the selling of securities at a loss to offset a capital gains tax liability.

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