The “wash sale” rule: Don’t let losses circle the drain

Stock, mutual fund and ETF prices have bounced around lately. If you make what turns out to be an ill-fated investment in a taxable brokerage firm account, the good news is that you may be able to harvest a tax-saving capital loss by selling the loser security. However, for federal income tax purposes, the wash sale rule could disallow your hoped-for tax loss.

Rule basics

A loss from selling stock or mutual fund shares is disallowed if, within the 61-day period beginning 30 days *before* the date of the loss sale and ending 30 days *after* that date, you buy *substantially identical securities.*

The theory behind the wash sale rule is that the loss from selling securities and acquiring substantially identical securities within the 61-day window adds up to an economic “wash.” Therefore, you’re not entitled to claim a tax loss and realize the tax savings that would ordinarily result from selling securities for a loss.

When you have a disallowed wash sale loss, it doesn’t vaporize. Instead, the disallowed loss is added to the tax basis of the substantially identical securities that triggered the wash sale rule. When you eventually sell the securities, the additional basis reduces your tax gain or increases your tax loss.

Example: You bought 2,000 ABC shares for $50,000 on May 5, 2024. You used your taxable brokerage firm account. The shares plummeted. You bailed out of the shares for $30,000 on April 4, 2025, harvesting what you thought was a tax-saving $20,000 capital loss ($50,000 basis – $30,000 sales proceeds). You intended to use the $20,000 loss to shelter an equal amount of 2025 capital gains from your successful stock market sales. Having secured the tax-saving loss — or so you thought — you reacquired 2,000 ABC shares for $31,000 on April 29, 2025, because you still like the stock. Sadly, the wash sale rule disallows your expected $20,000 capital loss. The disallowed loss increases the tax basis of the substantially identical securities (the ABC shares you acquired on April 29, 2025) to $51,000 ($31,000 cost + $20,000 disallowed wash sale loss).

One way to defeat the rule

Avoiding the wash sale rule is only an issue if you want to sell securities to harvest a tax-saving capital loss but still want to own the securities. In most cases, investors do this because they expect the securities to appreciate in the future.

One way to defeat the wash sale rule is with the “double up” strategy. You buy the same number of shares in the stock or fund that you want to sell for a loss. Then you wait 31 days to sell the original batch of shares. That way, you’ve successfully made a tax-saving loss sale, but you still own the same number of shares as before and can still benefit from the anticipated appreciation.

Cryptocurrency losses are exempt (for now)

The IRS currently classifies cryptocurrencies as “property” rather than securities. That means the wash sale rule doesn’t apply if you sell a cryptocurrency holding for a loss and acquire the same cryptocurrency shortly before or after the loss sale. You just have a regular short-term or long-term capital loss, depending on your holding period.

Warning: Losses from selling crypto-related securities, such as Coinbase stock, can fall under the wash sale rule. That’s because the rule applies to losses from assets that are classified as securities for federal income tax purposes, such as stock and mutual fund shares.

Beware when harvesting losses

Harvesting capital losses is a viable tax-saving strategy as long as you avoid the wash sale rule. However, you currently don’t have to worry about the wash sale rule when harvesting cryptocurrency losses. Contact us if you have questions or want more information on taxes and investing.