TAX LOSS HARVESTING AT A GLANCE

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Wash sale rule considerations

Tax loss harvesting overview

Tax-loss harvesting is a strategy of taking investment losses to offset taxable gains and/or regular income.[1] The U.S. federal government allows investors to use capital losses to offset capital gains in a current tax year or carry the loss forward into future years, where losses can be kept in perpetuity.

After realizing losses, investors may want to reinvest proceeds to maintain their desired exposure or asset allocation. To ensure that investors don't get a tax break and then instantly buy back their original investment, the government has what's known as the "wash sale" rule. The rule mandates that an investor cannot claim a loss on the sale of an investment and then buy a "substantially identical" security for the period beginning 30 days before and ending 30 days after the sale.

Implications for your investments

Because the IRS has not clearly defined what constitutes "substantially identical" securities, investors have interpreted the rule differently. When choosing to reinvest proceeds in a similar investment, tax practitioners generally agree that investors should consider the degree to which its holdings may overlap with the original investment, and the degree of difference in their prospective returns.

The greater the holdings overlap and the more similar the prospective returns, the greater the risk of wash sale classification by the IRS. See below for a framework to consider in the context of a loss harvesting strategy. All investors should consult a tax professional before implementing a loss harvesting strategy.

Tax-loss harvesting framework

Original security	**Single stock** (e.g. tech stock)	**Active ETF or active mutual fund** (e.g. active U.S. small- cap mutual fund)	**Index ETF or index mutual fund** (e.g. emerging markets ETF)		
Potential replacement	• ETF (active/ index) • Active mutual fund • Index mutual fund (e.g. tech sector ETF)	• ETF (active/ index) • Active mutual fund • Index mutual fund (e.g. U.S. small- cap ETF)	Active ETF or active mutual fund (e.g. active emerging markets ETF)	Index ETF or index mutual fund with different index (e.g. single country ETF)	Index ETF or index mutual fund with same index (e.g. emerging markets ETF)
Things to consider	• Little to no holdings overlap • Diversification into many holdings provides significant degree of difference in prospective returns	• Few if any holdings overlap • Risk characteristics unique to an active mutual fund/ active ETF provide a significant degree of difference in prospective returns		• Possible holdings overlap (i.e. similar sectors) • Potentially similar prospective returns depending on make-up of index	• Potentially significant holdings overlap • Potentially similar prospective returns
Risk profile	Lower	Lower		Moderate	Higher

For illustrative purposes only. BlackRock does not provide tax advice. Consult a tax professional regarding any of the information contained in this document.

1. Harvested losses can be used dollar for dollar to offset capital gains. Investors can also offset up to $3,000 per year of regular income with realized losses.

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CAREFULLY CONSIDER THE FUNDS' INVESTMENT OBJECTIVES, RISK FACTORS, AND CHARGES AND EXPENSES BEFORE INVESTING. THIS AND OTHER INFORMATION CAN BE FOUND IN THE FUNDS' PROSPECTUSES OR, IF AVAILABLE, THE SUMMARY PROSPECTUSES WHICH MAY BE OBTAINED BY VISITING WWW.iSHARES.COM OR WWW.BLACKROCK.COM. READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.

INVESTING INVOLVES RISK, INCLUDING POSSIBLE LOSS OF PRINCIPAL.

Transactions in shares of ETFs may result in brokerage commissions and will generate tax consequences. All regulated investment companies are obliged to distribute portfolio gains to shareholders.

Investment comparisons are for illustrative purposes only. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products prospectuses.

The Internal Revenue Service has not released a definitive opinion regarding the definition of "substantially identical" securities and its application to the wash sale rule and ETFs. The information and examples provided are not intended to be a complete analysis of every material fact respecting tax strategy and are presented for educational and illustrative purposes only. Tax consequences will vary by individual taxpayer and individuals must carefully evaluate their tax position before engaging in any tax strategy.

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