



Wash Sale Rules for Stock Traders

Do you trade Stocks? If you do, you need to be aware of the Wash Sale rules. What are the “Wash Sale rules” you ask? A wash sale is when you sell or trade stock or securities at a loss and within 30 days before or after the sale you buy substantially identical stock or securities. This can also occur if you sell a stock and an entity or family member purchases substantially identical stock.

So, what happens when the Wash Sale rules apply? If you make a transaction that falls under the Wash Sale rules, then you are unable to take the loss against any gains. In essence, your loss is disallowed but not lost. The disallowed loss is added to your basis (cost) of the new stock or security.

So, what is substantially identical? In general, it refers, with a few exceptions, to the purchase of the same stock or security that you sold. The exceptions are related to reorganizations, and convertible bonds or preferred stock.

In general, the 1099-B (the statement you receive at the end of the year from your Broker) will identify and apply the Wash Sale rules to your gains and losses. However, if you are doing your own trading on a platform, you may not be advised that you are in the territory of a wash sale. So, it is important to fully understand these rules and how they affect your trading strategies.

Additional information can be found in the IRS Publication 550.