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Brexit's market swoon can save you a lot on taxes

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There's a potential silver lining after watching a portion of your investment account get wiped away following the U.K. vote to leave the European Union.

U.S. investors with overseas holdings, such as emerging market funds or European funds, may be able to harvest those recent losses and use them to offset any taxable gains at the end of the year.

As of Monday after the sell-off, the Fidelity Global ex-US, Vanguard All-World ex-US Index Fund and Vanguard European Stock Index Fund, for example, were down nearly 6 percent, 7 percent and 13.5 percent, respectively, year-to-date.

"These kinds of realized losses can help lessen the burden for this year's tax bill," said Barry Glassman, a certified financial planner and president of Glassman Wealth in Vienna, Va.

That's because the Internal Revenue Service allows investors to offset all of their capital gains with any losses taken in a given year.

"It would make sense to have capital losses packaged with a capital gain from some other asset to get the most bang for your buck," said Mark Chaves, a tax partner in the international group at the New York-based accounting firm Marcum LLP.

It's a good strategy particularly for those who are selling other investments, or even a home, business or rental property this year, where there may be significant capital gains.

"Then, at least you can have some value for some of these losses," he said. (In the case of a primary residence, capital gains of $500,000 or less for married couples are tax free.)

For just that reason, tax-loss harvesting is a popular tool for maximizing after-tax returns, most commonly in the fourth quarter of the year, when investors aim to lower their tax liability.

Any losses can be deducted up to $3,000 a year against ordinary income, which also includes earnings on your W-2, as well as interest and dividends. Losses in excess of that can be carried forward to future tax years to reduce capital gains or ordinary income until the balance of the losses are used up.

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If your plan is to harvest the losses now to bank them against future gains and repurchase the securities, just be sure not to run afoul of the wash-sale rule which prevents investors from claiming a loss on a security that they immediately buy back.

To be in compliance with the IRS, investors must wait for 30 days before repurchasing the same investments again. If they don't, the losses will be disqualified.

Of course, a risk with this strategy is that if the stock or fund bounces back within the 30 days, a seller would miss out on the upside. That's the opportunity cost of taking money off the table when a stock or fund is temporarily down.

"Thirty days can be an eternity when there is this much volatility," said Ron Carson, founder and CEO of Carson Wealth Management Group. "I've done that and, more times than not, I've bought it back at a higher price."

Alternatively, investors can buy a different but similar stock or fund during that time.

"Sell off one type of European index fund and buy a different index fund so you can realize the loss this year and still maintain that exposure," Glassman said.

More important, perhaps, is to use this period of market volatility as an opportunity to do your research, Carson said.

"Managing the tax liability is good but I would rather people spend time evaluating their risk level to make sure it's appropriate. That's where you are going to add value."

"This is a great time to tightly hug your risk bucket," he said.