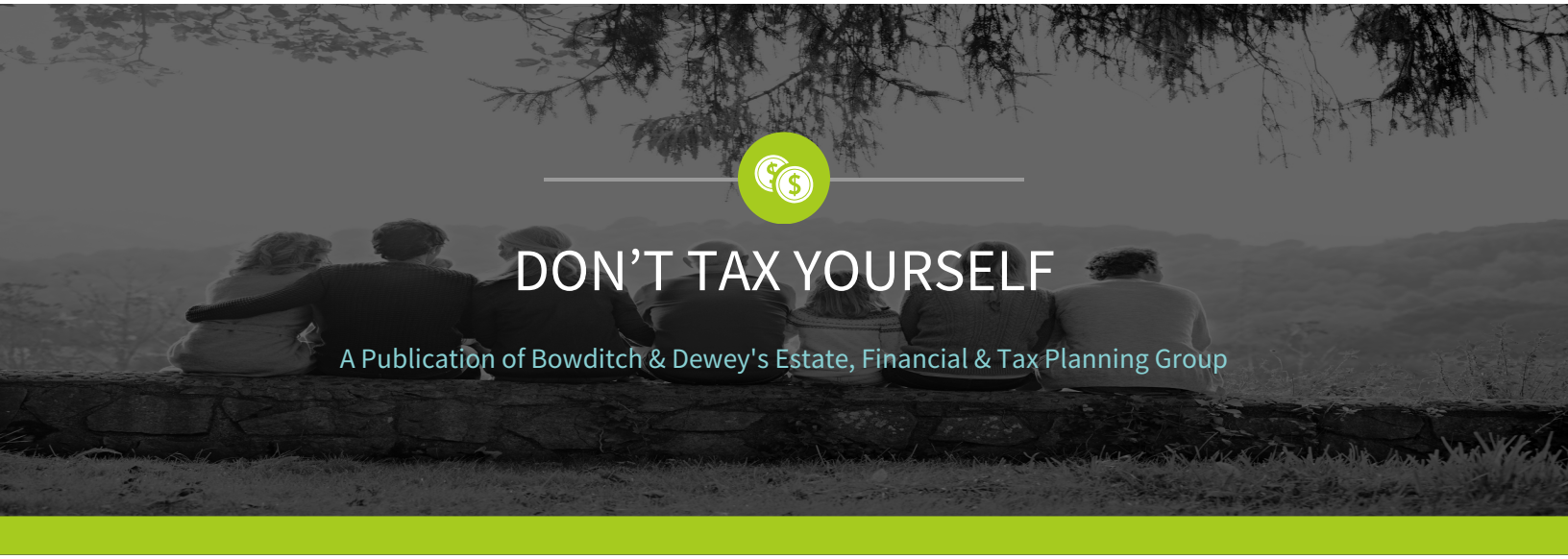

DON'T TAX YOURSELF

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How Can I Have Capital Gains Tax When My Mutual Fund Lost Money?

BY SCOTT C. CASHMAN • JANUARY 10, 2023

Many mutual fund investors have seen their mutual fund investments drop 30% or more in 2022. The Fidelity Growth Company Fund (FDGRX) is down 33.78% for 2022. The Vanguard US Growth Fund Investor (VWUSX) is down 39.64%. Popular Fidelity Contrafund, with over $80 billion in assets, is down by over 28%.

To add insult to injury, many of these investors will also have to pay taxes on large capital gain distributions made by some funds in 2022.

The tax law requires mutual funds to distribute income and net capital gain to the investor or the investor's mutual fund account.

Many funds began 2022 with holdings that had greatly appreciated from the decade long bull market.

Fidelity Contrafund paid a capital gain dividend of $1.143 on December 9, 2022, which represents 8.48% of the net asset value of the fund. So, in addition to a one-year decline in value of 28%, an investor in Contrafund will be paying taxes on an 8.48% capital gain dividend.

There are many fund families that made large capital gain distributions in 2022. For many mutual investors who have seen their shares decline in value, this will be an unpleasant surprise.

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