

Tax-loss selling and seasonal effects in the UK

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April 2006

Abstract: We examine monthly seasonal returns for the UK during the period 1955-2003. We identify four distinct tax regimes during which both the incentive and ability to tax-loss sell varies. In support of the tax-loss selling hypothesis we find that the relationship between past losses and both January and April returns is strongest during tax regimes in which the incentives to off-set tax is high and weakest during regimes in which the incentive is low. Most intriguingly, our evidence suggests that tax reforms introduced in 1998 that had the aim of reducing short-term trading have been successful in limiting tax-loss selling by the company sector but not for the personal sector. Finally, neither the January nor April effect appears to be driven by the size effect.