

Key Tax Planning Concepts for Managing Taxable Portfolios

This summary outlines key concepts, considerations and strategies to help taxable investors make more informed, tax-efficient portfolio management decisions.

Portfolio Turnover's Tax Cost

- 1 Allowing unrealized capital gains to compound tax-free over time is a powerful long-term, after-tax wealth creation techniques. Selling investments to rebalance or generate liquidity has a tax cost that should be evaluated in the context of the investor's broader tax picture.
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Strategic Timing to Mitigate Income Taxed at Higher Tax Rates

- 2 Through strategic timing of income and deductions, mitigate exposure to higher ordinary income (32%+) and highest capital gains (20%) tax brackets.
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Net Investment Income Tax (NIIT)

- 3 An additional 3.8% federal tax targeting high income earners, applied to the lesser of net investment income or excess modified AGI above certain thresholds.
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Estimated Tax Payments

- 4 Mismanaging estimated tax payments for portfolio income can be costly. Proper planning and communication can mitigate costs and penalties and even create incremental value.
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Long-Term Capital Gains Tax Rates

- 6 Holding a security longer than one year achieves a lower long-term capital gains tax rate compared to short-term capital gains, which are taxed at ordinary income rates.
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Tax-Advantaged Accounts

- 6 Maximize and leverage tax-advantaged accounts for their unique tax attributes, e.g. rebalancing within a tax-deferred account to mitigate current taxes or placing ordinary income assets in tax-deferred retirement accounts.
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Step-Up In Basis

- 7 Sometimes it's optimal to hold an appreciated asset so heirs can receive the stepped-up basis. The cost basis will then be assessed at the asset's fair market value at the time of the owner's death, rather than its original value.
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Tax Loss Management – Capital or Business Losses

- 8 Strategically utilize capital losses or business losses (NOLs) to mitigate income taxed at highest brackets. Mind federal and state-level loss carryforward rules.
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In-Kind Charitable Giving

- 9** Gifting in-kind securities to a charitable entity can help manage appreciated positions tax efficiently. Mind federal and state-level charitable deduction carryforward rules.
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Itemized Deduction Limitations

- 10** High-income households may not receive the full tax benefit of itemized deductions, reducing the value of deductions at higher income levels. The SALT deduction is also reduced at higher income levels.
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Qualified Business Income Deduction (QBI)

- 11** Higher levels of taxable income can reduce or eliminate this significant business income deduction.
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Partnership Investments

- 12** Partnerships, private funds, and other passthrough investments can introduce unique tax consequences and planning opportunities, including inside vs. outside basis, passive loss considerations, multi-state filings, and phantom income.
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Medicare Income-Related Monthly Adjustment Amount (IRMAA)

- 13** Higher income can increase monthly Medicare Part B & D premiums.
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Social Security

- 14** Up to 85% of social security benefits can become taxable at certain income levels.
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Qualified Charitable Deduction (QCD)

- 15** If investor is older than age 70½ - they can donate part of their IRA directly to charity counting towards RMD requirements and avoiding a taxable IRA distribution.
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After-Tax Yield

- 16** Interest and dividends can have diverse tax profiles. It's important to review after-tax yield relative to the investor's specific tax situation.
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