LEARN | Tax Advantages of Different Accounts

3 minutes

Learn what to consider when determining tax-advantaged asset location, and what your clients can gain from doing so. Asset location decisions not only affect a client's pretax returns, but also strongly influence what remains after taxes.

Prefer to save for later?

SHARE BY EMAIL

Did You Know?

There are three main considerations to determining optimal asset location: the type of account, the tax efficiency of the investment assets and the type and frequency of taxable events the investment(s) will experience.

Key Takeaway

Asset location is crucial in helping your client reduce their taxable income, generate tax-advantaged growth and keep more of what they've worked so hard to save.

Asset Tax Exposure

Compare the applicable taxes and possible asset locations for each level of tax exposure.

	Applicable Taxes	Possible Asset Locations	Overview
Asset Tax Exposure High	• Ordinary income • Taxable interest • Non-qualified dividend income	• Roth IRA or Roth 401(k) • Traditional IRA or 401(k)	Investment income subject to taxation should be located where it can't be taxed. Placing these income sources in an account that isn't taxed annually allows all of the interest to compound.
Asset Tax Exposure Medium	• Short-term capital gain • Long-term capital gain • Qualified dividend income	• Can work almost anywhere with a forward-looking, tax-aware approach, such as using capital losses to reduce taxable capital gains and holding assets to more favorable long term capital gain rates if possible.*	Capital gains are a special category. If your client expects gains to be distributed annually, they may belong in a tax-deferred retirement account. If those gains can be offset with realized losses, they may instead belong in a fully taxable account where they can enjoy the offset.*
Asset Tax Exposure Low	• Tax-exempt income	• Taxable brokerage account	Investment income that is subject to little or no annual tax may be suitable for holding in a fully taxable brokerage account. For example certain types of tax-advantaged investments such as municipal bonds.

Next Step

Review clients' and prospects' accounts, and consider what asset location changes might be appropriate to help create tax-advantaged outcomes.

KEEP LEARNING

Restricted Stock Units (RSUs): Executive Compensation

LEARN MORE

*Tax-loss harvest transactions aren't beneficial in a retirement account because the losses generated in a tax-deferred account cannot be deducted.

Elements of this analysis include comparisons of different account types and investment vehicles each of which have distinct trading, expense, tax and risk characteristics. Tax saving strategies should not undermine one's investment goals.

Tax-loss harvest transactions aren't beneficial in a retirement account because the losses generated in a tax-deferred account cannot be deducted.

The Firm does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. Tax laws are complex and subject to change. Investors should always consult their own legal or tax professional for information concerning their individual situation.

Publication details: Tuesday, March 5, 2024 10:49 AM

Page ID: 43361 - https://www.eatonvance.com/tax-advantages-different-accounts.php