[< Back to The Advisor Institute]

Coach's Corner

Our latest commentary to help you elevate the success of your practice

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After-Tax Advisor

Start 2024 Strong by Being an After-Tax Advisor

By: Holly Swan | January 8, 2024

A financial advisor's success in today's highly competitive market is dependent on high-touch, personalized services that make wealthy investors' goals more attainable. The three tenets of The After-Tax Advisor are a guide to deliver the added planning value your clients are looking for to achieve their financial goals.

Tenet 1: Taxes can be a client's easiest "investment fee" to reduce.

Tax rates are far higher than advisory fees. Working with an After-Tax Advisor can therefore lower clients' taxes and help you to demonstrate the value of the fees you charge. January is a great time to quantify the tax fees you helped clients avoid with tax-efficient strategies over the last year and discuss additional tax-forward strategies that could be used in the coming year.

Consider asking: *What do you think detracts more from investment performance: Fees or taxes?*

Tenet 2: Asset location can be as important as asset allocation.

While *what* you invest in will determine your pre-tax return, *where* you hold those investments will determine your after-tax return. Highly-taxed forms of investment income may be better suited where they won't be taxed, as in a Roth or traditional retirement plan. Investment income that is subject to little or no tax may be better suited for a fully taxable brokerage accounts.

Long-term capital gains are a special category. Gains that are distributed annually, as in a 40-Act mutual fund, may be best located in a tax-deferred retirement account. On the other hand, gains that can be timed and offset with realized losses may be better suited for a fully taxable account where they can enjoy the offset.

Consider asking: *Do you make use of both tax-exempt and tax-deferred accounts? How do you invest inside them?*

Tenet 3: Uncle Sam can be a coach, not simply a referee.

Coaches instruct players on how to apply the rules to win the game, while referees enforce the rules and penalize players who don't follow them. Appreciating Uncle Sam as a coach requires recognizing the tax code for what it is: a set of rules designed to encourage some behaviors and discourage others.

Being an After-Tax Advisor requires understanding the tax consequences of investment decisions and thinking in terms of after-tax returns. Consider using tools like systematic tax-loss harvesting* and charitable giving with appreciated securities to help your clients benefit from Uncle Sam's rules.

Consider asking: *Are you charitably inclined? How much to you give to charity each year? In what form?*

Bottom Line: The three tenets of The After-Tax Advisor can help you set yourself apart from the competition with tax-forward strategies that improve your clients' after-tax returns.

**Tax-loss harvesting 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.*

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