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LEARN | Benefits of Deferring Taxes

3 minutes

By deferring taxes, your clients may accumulate more after-tax wealth over time through compounding.

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Did You Know?

Effective tax rates vary by state, so the impact of tax deferral depends on where your client pays taxes.

Key Takeaway

When you help clients understand the potential benefits of tax deferral, you can guide them in the direction of investments that can best support compounding growth.

Compare an After-Tax Investment to Tax-Deferral*

This example shows the hypothetical diversification of a client's concentrated stock valued at $1,000,000 with a cost basis of $200,000. It further assumes an 8% growth rate over both diversified portfolios for a period of 10 years.

Diversifying the concentrated stock position on a tax-deferred basis would enable your client to increase the net liquidation proceeds at the end of the holding period—a considerable difference of $168,143.

	Up-Front Liquidation and Payment of Tax	Deferred Liquidation and Payment of Tax
Effective Federal Tax Rate	23.8%	23.8%

Total to Invest in Year 1	$809,600	$1 million
Value After 10 Years	$1.75 million	$2.16 million
After-Tax Value Assuming Liquidation in Year 10	$1.52 million	$1.69 million

Next Step

If you have clients considering diversifying a concentrated stock position or rebalancing a large portfolio, speak to them about their options to defer the realization of capital gains.

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Concentrated Stock Position Calculator

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Disclosure

*This hypothetical illustration is provided solely to demonstrate the long-term effect of applying mathematical principles to an assumed set of facts. Actual results will differ and could be substantially different.

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