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WATCH | The Importance of Asset Location

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The Importance of Asset Location

Some clients may know the importance of asset allocation and how it can impact pre-tax returns, but most probably haven't thought about asset location, which can strongly influence what remains after taxes. A comprehensive investment plan should help improve after-tax outcomes by coordinating asset allocation with asset location.

Asset location refers to the type of account that holds an investment, such as tax-free accounts including Roth IRAs and Roth 401(k)s; tax-deferred accounts including traditional IRAs and retirement plans; and taxable accounts such as brokerage. For example, tax-friendly accounts like Roth and traditional IRAs and 401(k)s can be great for investments that generate high levels of income or portfolios that require ongoing rebalancing or subject to substantial capital gains. Taxable brokerage accounts can provide opportunities for tax loss harvesting, which lets clients offset realized gains with realized losses in the same or another taxable account they own. While asset allocation decisions may explain the majority of a client's pre tax returns, tax smart asset location helps them keep more of what they've earned.

Take a few minutes to explore the Eaton Vance Tax Education Center at EatonVance.com/TaxEdCenter for more useful resources to help you meet a variety of tax forward investing needs.

Disclosure



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

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