WHITEPAPER

FRAGASSO FINANCIAL ADVISORS

3 CONSIDERATIONS *that May Reduce Your Portfolio Income Tax Footprint*

Written by **BRIANNE KING**, CFP®, AIF®
Manager of Financial Planning

IS YOUR INVESTMENT PORTFOLIO CREATING A BURDEN FOR YOU AT TAX TIME? *If the answer is yes, it may be time to consider different strategies to help reduce your portfolio taxes. The spectrum of investments is vast and certain types of investments are more tax efficient than others. A simple shift in your investment strategy may help to reduce your portfolio taxes. Below are three considerations to evaluate with your tax professional, to help make your portfolio more tax efficient.*

1. **REDIRECT YOUR NON-RETIREMENT PORTFOLIO FIXED-INCOME ALLOCATION TO MUNICIPAL BONDS:** A quick way to save on taxes for what might be a large portion of your portfolio is to invest in municipal bonds. Municipal bonds receive special tax treatment because they are the debt obligation of a state, municipality or county. The benefit of investing in these bonds is that the interest you receive from the bond is exempt from federal tax and from most state and local taxes.

2. **UTILIZE PASSIVE INVESTMENT STRATEGIES:** Investments in mutual funds are one of the largest tax generators for non-retirement accounts. Similar to your personal account, mutual funds build up capital gains as the stocks they invest in do well. When the mutual fund realizes those gains, they pass them onto the shareholders in the form of a distribution, which is taxable to you. By utilizing a combination of passive and active management, you can reduce your portfolio taxes because passive management, or investing in exchange traded funds (ETFs), does not carry the same tax burden as mutual funds or active management. Our Portfolio Management Department implements an investment strategy on our clients' behalf that combines the benefits of passive and active management.

3. **TAX-LOSS HARVESTING:** An easy way to help reduce portfolio taxes is to harvest any losses that you incurred before year end. Harvesting losses, or selling positions that are at a loss, will go towards cancelling out the gains you have realized that tax year. Let's break this concept down a little further. When you sell an investment in your non-retirement portfolio, it will either be for a gain, a loss, or in the rarer instance, a break even. If you sell your investment for a gain, it will either be considered a short-term gain or a long-term gain. A long-term gain results from an investment held for more than a year. Anything less is considered a short-term gain. Long-term capital gains can be taxed up to a maximum rate of 20 percent and short-term capital gains are taxed at your ordinary income tax rate. Luckily you don't have to absorb these taxes if you have offsetting losses in your non-retirement account. If you don't have any realized gains in a particular tax year, we still recommend harvesting losses so that you may carry those losses forward for future use.

Your portfolio should be working for you to help you achieve your financial goals. If you feel your portfolio taxes are becoming burdensome, then it might be time to reexamine how your account is structured. Small changes in your portfolio can amount to large savings at tax time. If you feel you could benefit from one or more of these suggested strategies, please contact your financial advisor to coordinate a meeting with your tax professional to explore these opportunities.

FRAGASSO FINANCIAL ADVISORS

FOLLOW US!

1.800.900.4492
FRAGASSOADVISORS.COM