Tax diversification worksheet

In uncertain market environments, investors must understand the importance of diversifying investments along asset classes and investment styles. Investors may apply a similar strategy to ensure that their investments are diversified in preparation for the uncertainty surrounding future taxes.

Tax diversification offers some distinct benefits:

- Flexibility to draw income from different sources depending on your tax situation and changes in overall life circumstances
- Opportunity to hedge your portfolio against the direction of tax rates, which could move higher in the future

Where are your investments located?

Taxable assets	Tax-deferred assets	Tax-free assets
Savings account and CDs	Traditional IRAs	Roth IRA and Roth 401(k)
$	$	$
Brokerage accounts	Retirement plans (e.g., 401(k), 403(b))	Municipal bonds
$	$	$
Mutual funds	Annuities	College savings accounts (e.g., 529)
$	$	$
Total	**Total**	**Total**
$	$	$

What is the tax treatment of certain assets?

Type of asset/account	Taxability
Traditional retirement accounts (e.g., pensions, IRAs, 401(k)s, 403(b)s, annuities)	Taxable at ordinary income rates when distributed
Roth IRAs, Roth 401(k)s, college savings plans	Contributions made with after-tax dollars; not taxed when distributed
Taxable investment accounts (brokerage accounts, mutual funds)	**Capital gains and dividends:** taxed at a maximum 20% rate* **Other income:** taxed at ordinary income rates **Return of principal:** not taxable
Municipal bond funds†	No taxes on interest income
Savings accounts and CDs	Earned income is taxed as ordinary income
Social Security	May be partially taxable at ordinary income rates

What strategies can help you achieve tax diversification?

Once you have assessed the taxability of your investments, you may want to work with your financial advisor to discuss potential strategies that may help improve your tax diversification. Some strategies to consider:

Strategy	Benefits
Roth IRA/401(k)	Fund a Roth IRA or a Roth 401(k), or convert traditional IRA assets to a Roth IRA. If you have all or most of your current savings in a traditional 401(k) or IRA, holding assets within a Roth account can help you diversify how your savings are taxed when withdrawn at retirement.
Municipal bonds	Allocating a portion of your fixed-income assets to municipal bonds may increase the amount of real after-tax income if your income places you in a higher tax bracket.
Allocate assets by tax status	Consider placing a larger percentage of stock holdings outside of retirement accounts to potentially benefit from the 20% tax rate on qualified dividends and long-term capital gains.

Diversification does not assure a profit or protect against loss. It is possible to lose money in a diversified portfolio.

* Taxpayers with income levels exceeding $200,000 ($250,000 for married couples filing a joint return) are also subject to a 3.8% surtax on net investment income.

† Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally tax exempt funds may be subject to state income taxes.

This material is for informational purposes only. It should not be considered tax or investment advice. You should consult your financial representative or tax advisor to determine what may be best for your individual needs.

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