5 Tax Tips

For Investors

New York Life Investments

Are your investments tax efficient?

If you're not sure, you're not alone.

82% of Americans are bothered by the complexity of the tax system.

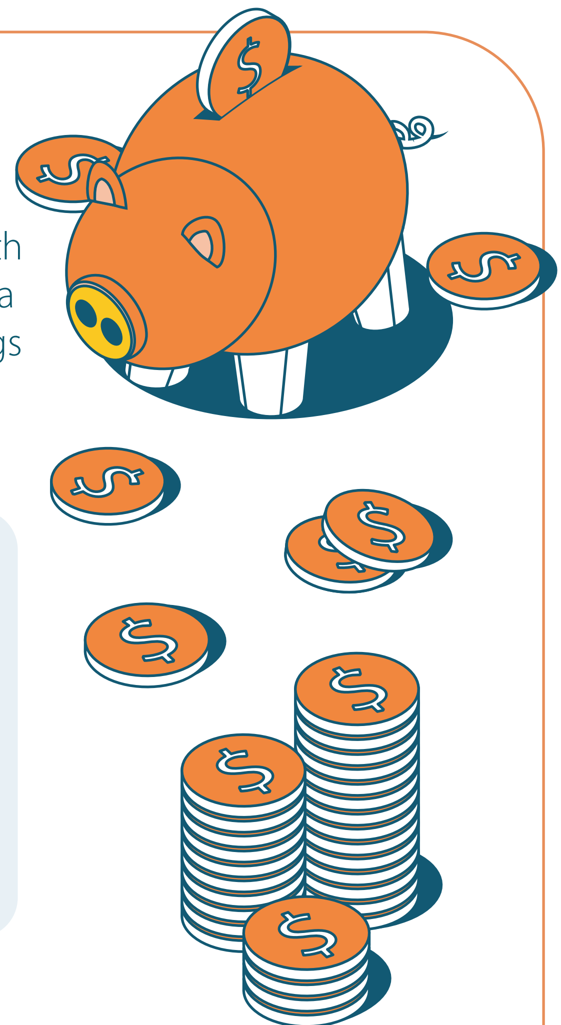
66% of Americans are frustrated by the amount they pay in taxes.

Source: Pew Research Center (Apr 2021)

Let's take a look at five practical tax tips you can consider for your own investments.

Tip 1

Use a Tax-Advantaged Account



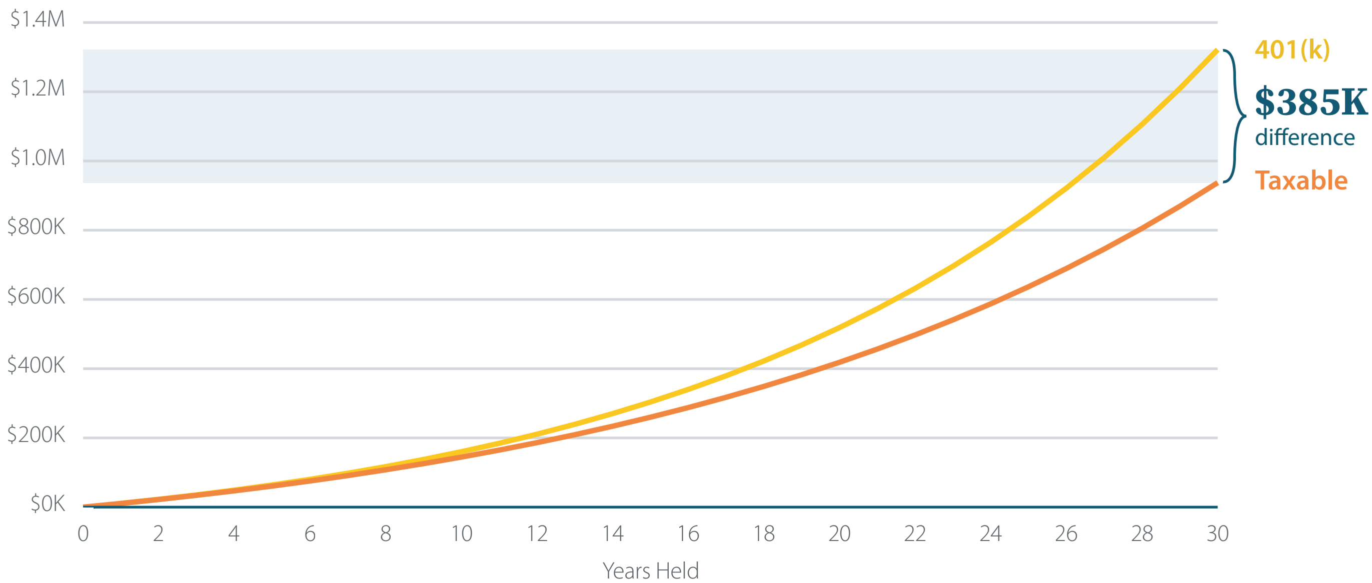
Using a tax-advantaged account can maximize the growth of your investments. This is because you aren't paying out a portion of your earnings in taxes each year, so your earnings are fully reinvested (compounded).

Consider how this affects the value of a hypothetical portfolio over time.

	Traditional 401(k)	Taxable Account
Annual Contributions	$10K	$10K
Annual Return	8.4%	8.4%
Annual Tax Rate	0.0%*	20.9%
Net Return	8.4%	6.6%

*While earnings on investments held in a 401(K) are not taxed, an investor will pay taxes on withdrawals.

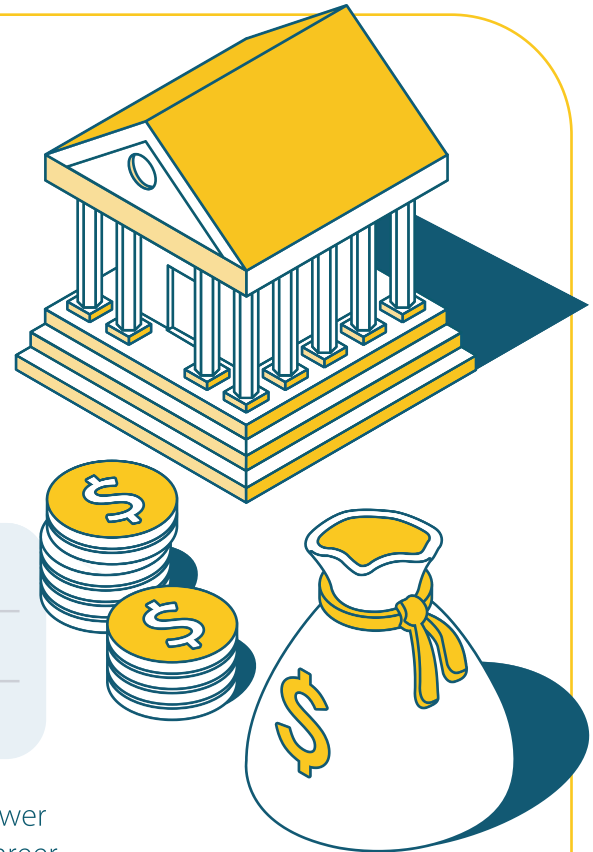
Balance Over Time



Source: Aswath Damadoran, NYU Stern School of Business (Jan 2023), Federal Reserve (Jan 2023), author's calculations. Annual return is an average of the real total return from 1928-2022 based on the S&P 500 Index from 1957 onwards, and based on large cap stock indexes created by Robert Shiller and Ibbotson Associates in prior years. Average inflation rate from 1928-2022 based on Federal Reserve data. Past performance is no guarantee of future results. An investment cannot be made directly into an index. Index and return definitions can be found at the end of this piece. We assume all earnings are taxed at a straight 20.9%, a simplified estimate based on the long-term capital gains rate a New York State investor with $150,000 in income that is married and filing jointly would pay.

While the difference is minimal in the beginning, the balance of the tax-advantaged 401(k) is 41% larger after 30 years.

Tip 2



Use the Right Tax-Advantaged Account

Among tax-advantaged accounts, there are traditional and Roth options.

	Traditional	Roth
Contributions	Pre-Tax Dollars	After-Tax Dollars
Withdrawals After Age 59 ½	Taxable	Tax-Free

If you're strategic about which account type you choose, you can lower the amount of tax you pay. Consider a young person early in their career who expects their marginal tax rate will increase by retirement.

Option 1
Traditional

With a traditional account, they will pay the higher expected tax rate on withdrawals in retirement.

17.9%
Current Marginal Tax Rate

27.9%
Expected Marginal Tax Rate in Retirement

Note: marginal tax rate estimated for a New York State investor who has an income of $40,000 now and expects to have an income of $80,000 in retirement.

Option 2
Roth

With a Roth account, they will pay their lower marginal tax rate on contributions now.

17.9%
Current Marginal Tax Rate

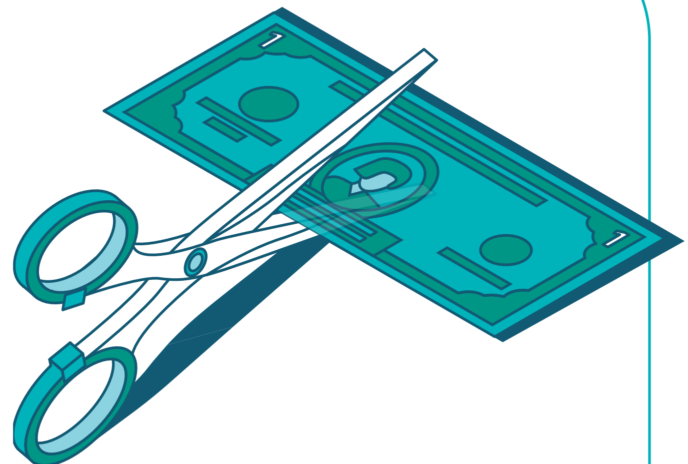
27.9%
Expected Marginal Tax Rate in Retirement

While there are other factors to consider, the timing of tax benefits can be a key difference when you are choosing between tax-advantaged accounts.

Tip 3

Harvest Tax Losses

Taxable accounts, which can be helpful for investors looking for flexibility, offer the benefit of tax loss harvesting. If you sell an investment at a loss, you can use it to offset gains that you would otherwise owe taxes on.

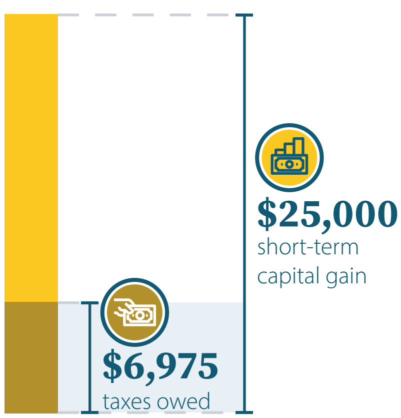


Consider an investor with the following:

Short-Term Capital Gain | Short-Term Capital Loss | Marginal Tax Rate

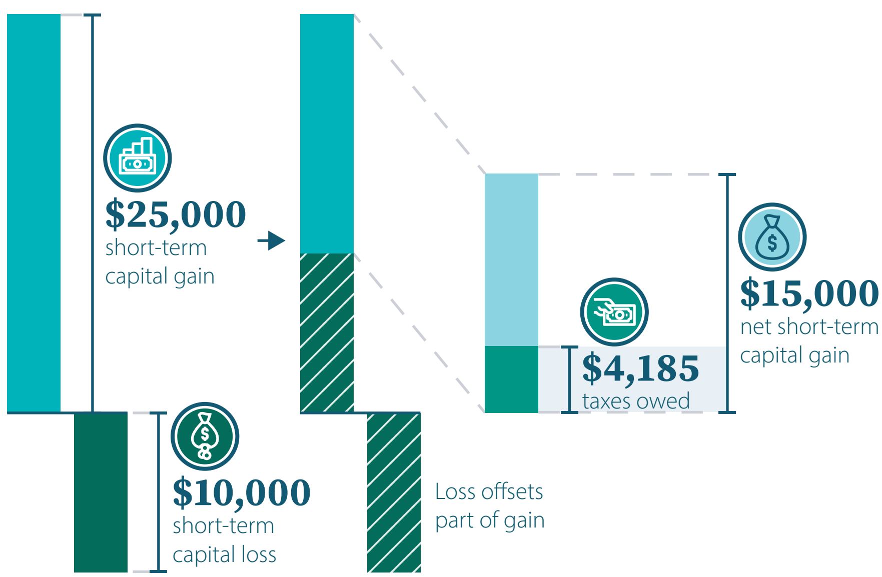
How will their tax bill differ based on whether or not they harvest the loss?

Option 1
Not harvesting losses



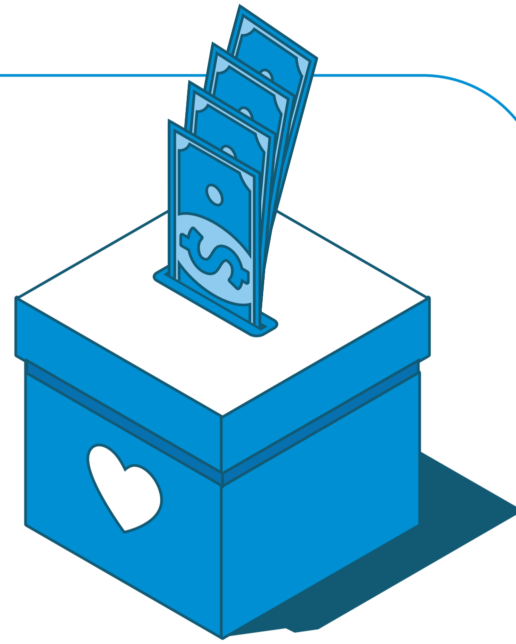
Note: Marginal tax rate on short-term capital gain estimated for a New York State investor with $150,000 in income who is married and filing jointly.

Option 2
Harvesting losses



By harvesting the loss, the investor has reduced their taxes by nearly $3,000.

Tip 4



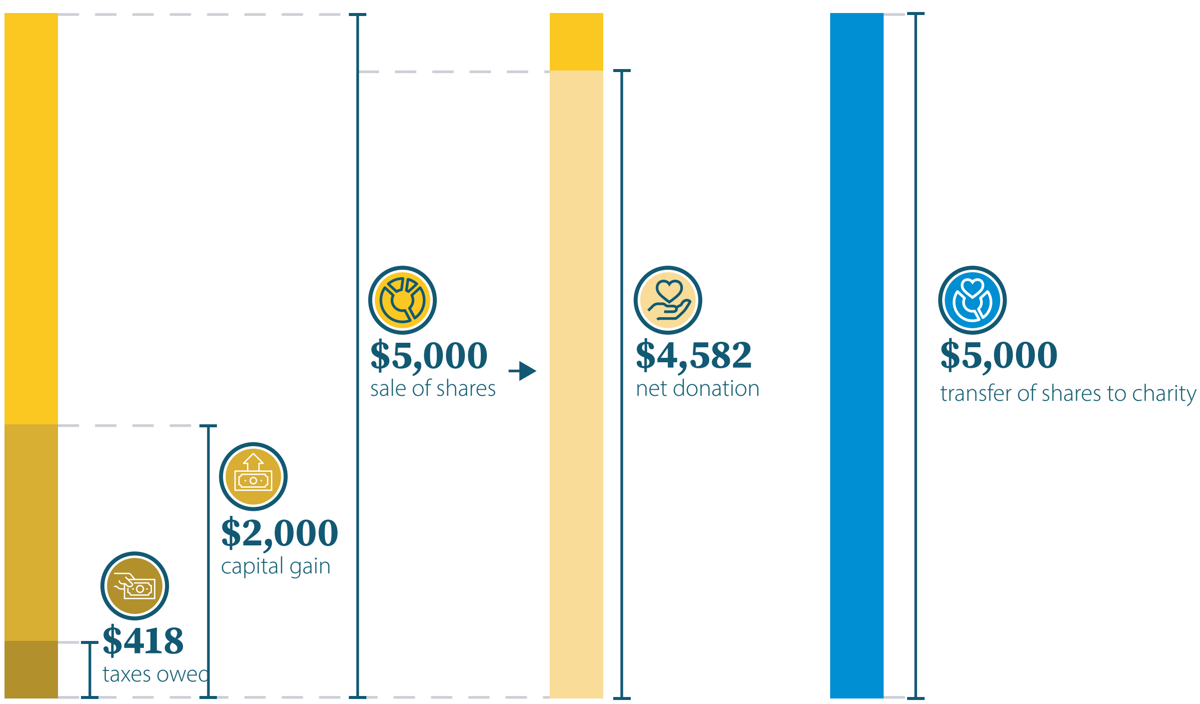
Donate Appreciated Assets Rather Than Cash

If charitable donations are part of your money goals, you could be leaving tax savings on the table if you're donating cash.

Consider an investor who has stock worth $5,000 that they originally purchased for $3,000. They have held the stock for over a year and have a 20.9% marginal tax rate on long-term capital gains.

Option 1
Sell shares and donate the cash

Option 2
Transfer shares directly to charity



Note: 20.9% marginal rate based on the long-term capital gains rate a New York State investor with $150,000 in income that is married and filing jointly would pay.

By donating the shares directly, the investor does not have to pay capital gains taxes and can donate a higher amount.

Another benefit? Investors are generally able to deduct the full fair market value of the donation on their taxes.

Tip 5

Hold Assets in the Right Accounts

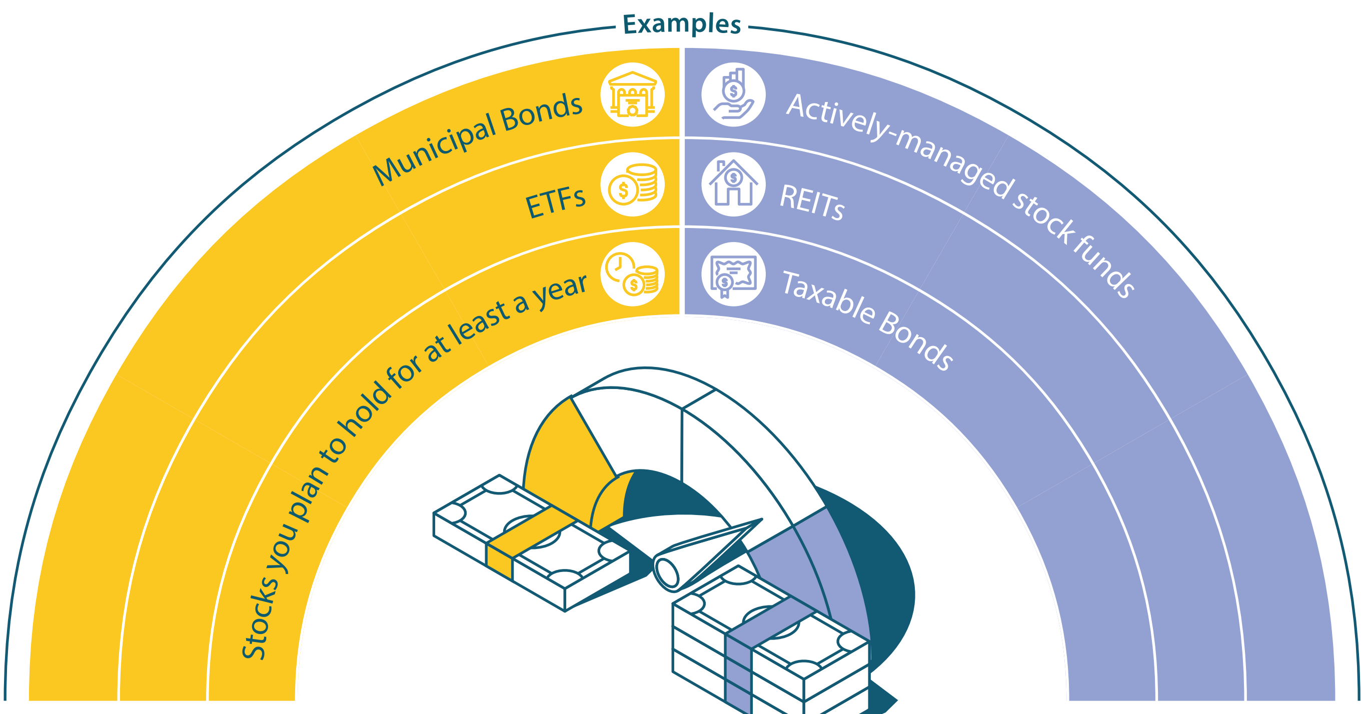
Some investors may use whichever account is most convenient and hold the same assets across accounts. However, it's more tax efficient to put certain assets in certain accounts based on their tax treatment.

Taxable Accounts

Best for assets with low appreciation, preferential tax treatment, and low turnover

Tax-Advantaged Accounts

Best for assets with high appreciation, tax-intensive treatment, and high turnover

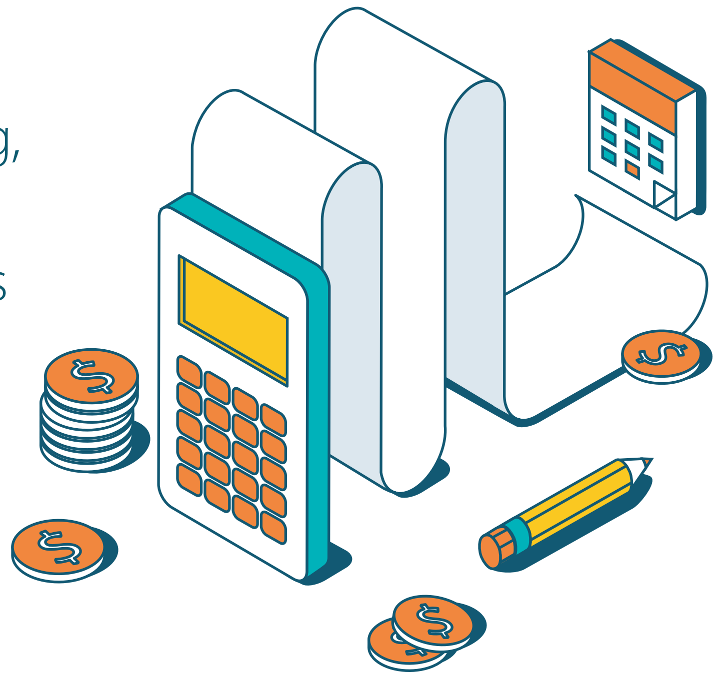


Source: Investopedia (Jan 2023)

Taking a holistic view of your assets can help you make more strategic decisions about where to put them.

Investing With Taxes in Mind

Through advanced planning, you can consider these tips and make your investments more tax efficient.



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The S&P 500 Index is widely regarded as the standard for measuring large-cap U.S. stock market performance.

Real return, for the purposes of this infographic, is what is earned on an investment after accounting for inflation.

It is not possible to invest directly in an index. Past performance is not indicative of future results. Different time periods may have different results. This material represents an assessment of the market environment as of a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any particular issuer/security. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy.

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