

# After-tax wealth checkup

Finding clues in your form 1040



Individual investors often pay a sizable amount of taxes on investment income. A review of your tax return, alongside your overall financial picture, can help determine what, if anything, might be done to improve your after-tax outcome.

## Boxes 2a and 2b: Interest

- How much is taxable versus tax-exempt?

## Boxes 3a and 3b: Dividends

- Do the nonqualified dividends appear too high?

## Boxes 4a and 4b: IRA Distributions

- Are Required Minimum Distributions (RMDs) being reinvested? If so, where?

## Line 7: Capital gain or (loss)

- This line includes short- and long-term gain or loss from Schedule D.
- Do capital gain distributions seem high compared with the total investment amount?

## Other key considerations:

### Know your tax rate

Your **marginal tax rate** can be found in the IRS tax tables, under your current filing status. To get your **effective tax rate**, consult your Form 1040, and divide **Total Tax** by **Taxable Income**.

### Trading activity

**Frequent trading within a taxable portfolio** (due to reallocations, tactical trading or fund replacements) can result in unnecessary taxes when positions with unrealized gains are constantly and/or systematically sold. When making changes to a taxable portfolio always be sure to consider the tax consequences. Smaller and less frequent allocation changes may be better for tax-sensitive investors so that benefits from portfolio improvements are

not outweighed by tax costs.

### Investment income

If you have **dividends or other cash distributions that are being reinvested**, consider turning off that reinvestment, and migrating that cash into a tax-managed solution.

### Your transition plan

When considering a transition to a tax-managed approach, **be sure to understand the tax impact**, if any, as well as the payback period of the transition.

Russell Investments can work with your financial professional to help analyze potential taxes and the payback period for portfolio transitions.

## Your financial picture: Where to focus

Answering a few questions and making sure your financial professional is up to date on your circumstances can help as you address your long-term taxable investing needs.

### Your most recent tax outcome

Yes No

1. Was your overall tax bill what you expected?

2. Do you feel you paid more in taxes than you should?

### The bigger picture

3. How many Form 1099s (including 1099DIV, 1099INT, etc.) did you receive for the most recent tax return?

4. For the accounts associated with your 1099s, what type of investments do you own?

Stocks

ETFs

Bonds

CDs / Money Market

Muni Bonds

Annuities / Insurance

Mutual Funds

Other

Yes No I don't know

5. For your held-away or self-directed taxable accounts, are you using tax management strategies?

**Effective investment tax management is a year-round process** that includes ongoing implementation of multiple strategies, such as:

- Centralized trading
- Tax-loss harvesting
- Yield management
- Tax lot management
- Holding period management
- Minimizing wash sales

### Your Income needs

6. What are the sources of income you currently use for daily/annual expenses?

Wages and salary

Rental / Business income

Investment income

Retirement income / Social Security

Yes No I don't know

7. Is some or all your investment income automatically reinvested?

### Major financial events

8. Are you expecting any of the following in the next 1-5 years?

Sale or purchase of home or other real estate

Sale of business stake(s)


Deferred compensation distributions

Inheritance / Trust event

Insurance payout

Sale of investments or other taxable assets (for example, to cover large purchases, events, education, etc.)

Other significant increase in income



**Talk to your financial professional and/or tax accountant to see what steps can be taken to potentially minimize your tax burden.**

Or visit [russellinvestments.com](https://russellinvestments.com) to discover the benefits of tax-managed investing.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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