Client First Capital

Top 5 Tips

TO MINIMIZE TAXES ON INVESTMENTS DURING RETIREMENT

#1 TAKE ADVANTAGE OF **LONG-TERM CAPITAL GAINS**

There is a significant difference between short-term and long-term capital gains tax rates. For the vast majority, short-term capital gains are greater than long-term capital gains as they are taxed as ordinary income. Long-term capital gains have much more favorable rates and are typically 15% or 20% for most people.

UP TO 37%

Tax rate on short-term capital gains.

UP TO 20%

Tax rate on long-term capital gains. High income individuals may have an added 3.8% surcharge.

Key point: Understand timing of returns to take advantage of more favorable long-term capital gains tax rates.

Pro tip: Track securities and review purchase dates frequently. If you are within two to three weeks from turning short-term capital gains into long-term capital gains, it may be in your best interest to wait. It is important to remember that gains at the end of the year net out. So, you may be able to offset a short-term gain with a long-term loss.

How we do it: Client First Capital analyzes each security within the client's investment portfolio to understand gains and holding periods relative to tax rates. We may also use other methods, like options contracts, to lock in a security's value until the investment qualifies for long-term capital gains treatment.

#2 UNDERSTAND **INVESTMENT TURNOVER**

Within a mutual fund, there are many individual security transactions that are placed throughout the year. Those transactions create taxable events that are passed on to you as the investor. In 2019 the average domestic fund had an average turnover of 63%, which could be quite costly in a taxable account since those taxable events are passed through to the shareholder.

63%

Typical turnover of the average domestic fund in 2019

Turnover is the percentage of a portfolio that is sold in a particular month or year.

Key point: Look at the prospectus of the mutual funds you own to understand the fund's average turnover and tax efficiency.

Pro tip: Consider owning a group of diversified securities or an index fund to gain more control over the turnover rates. Index funds mirror a specific index and do not have analysts making investment decisions. Turnover in an index fund occurs when the tracked index makes changes to their composition. The resulting turnover is typically lower than a mutual fund, making it possible to achieve a turnover of less than 25%.

How we do it: Every portfolio that Client First Capital manages is tailored to fit our clients. Our core portfolios use index funds, resulting in lower fees and lower turnover. In addition, we track estimated capital gains through our technology platform in order to provide our clients a transparent and accurate estimate of capital gains exposure.

#3 UTILIZE **LOT-SPECIFIC ACCOUNTING**

There are two ways to track your cost for a security. One way is to keep track of each specific purchase, which is called **lot basis**. The other way, called **average cost basis**, is to average your costs across all purchases of the same security. In many instances, an average cost basis method does not allow you to maximize tax efficiencies.

Key point: The accounting method you use to determine your cost basis can impact your overall tax rate. Further, the method used can also impact which securities you use to fund charitable gifts (for example, Donor Advised Funds).

Pro tip: There are many benefits to tracking cost basis at the lot level. One benefit is adjusting how you rebalance your portfolio relative to your targets. For example, to achieve the least amount of capital gains, you could first sell the securities that have the highest cost basis and also that qualify for long-term capital gains.

How we do it: Client First Capital has access to the latest technology to map out all the shares and cost basis to determine which share would net the best tax situation for a client.

#4 BE STRATEGIC ABOUT **WHICH INVESTMENT ACCOUNT** IS USED TO PURCHASE SECURITIES

The investment account you use to purchase securities makes a difference as there are different tax rules for different accounts. For example, investments in a Roth IRA are tax deferred and tax free, making these accounts best for growth investments. IRAs and 401(k)s tend to be best for bonds. Alternatively, taxable accounts are best suited for core holdings that minimize transactions.

ROTH IRA

Best for the most growth.

IRA

Best for income generating investments.

Taxable

Best for core equity holdings.

Key point: Incorporating tax treatment into your investment account strategies along with risk tolerance is important.

Pro tip: Many advisors are not able to implement this strategy as they do not manage the money they advise on. In some cases, you can ask to work directly with the portfolio manager, however, this may be more difficult at larger firms.

How we do it: Client First Capital is a small firm that provides both advice and investment services, allowing us to create these types of tailored strategies for our clients.

#5 KNOW WHEN TO USE **TAX LOSS HARVESTING**

With tax loss harvesting, you are essentially resetting your cost basis in a security for something comparable and with a lower price than what you originally paid. This strategy creates an accounting loss that can be used immediately and is effective in years where you realize a large gain (perhaps through the sale of real estate).

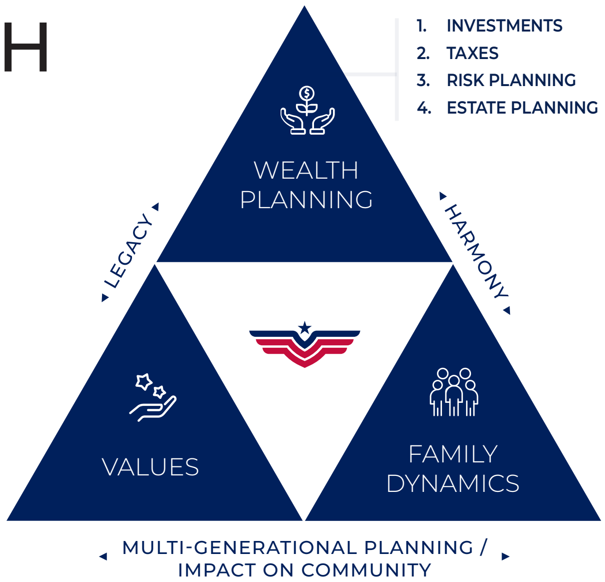
Key point: When you implement a tax loss harvesting strategy, you are resetting the clock on the time horizon for capital gains. Also, it is important to choose the right security when implementing this strategy so as not to trigger a wash sale.

Pro tip: Work with your CPA or tax advisor to see which years are best to maximize tax-loss harvesting. Keep in mind, you hope investments increase in value over the long run. Reducing your cost basis today could mean having a considerable capital gain in subsequent years.

How we do it: Client First Capital reviews our clients' taxes every year using advanced tax planning software to create a multi-year projection. In addition, we communicate with the client's CPA on an regular basis to develop an integrated tax and investments strategy.

OUR INTEGRATED APPROACH TO WEALTH MANAGEMENT

At Client First Capital, we work alongside our clients and their families to build and maintain a secure financial future. Our integrated approach to wealth management lies at the intersection of investments, taxes, risk planning, and estate planning.



READY TO OPTIMIZE YOUR TAX STRATEGY?

For a complimentary review of your wealth planning strategies, give us a call or send an email. We're here to help!

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