WELLS FARGO Advisors

Tax efficiency checklist

Adding tax awareness to your investment decisions can improve your after-tax investment results. What moves are you making toward tax efficiency? As you are considering the items on this checklist, also think about what types of accounts you are currently using to hold your investment assets. Accumulating assets across accounts of different tax types (taxable, tax-deferred, and tax-exempt) can provide more control and flexibility over your tax situation when drawing on your assets during retirement.

Review this quick checklist of action items to see where you are excelling and where you can improve. Check the box for each action item you have completed. Then, follow up with your financial advisor to evaluate your portfolio strategies and any investment changes that may help improve the tax efficiency of your portfolio.

☐ Contribute to tax-advantaged accounts

- Consider contributing the maximum amount to your employer retirement plan, an amount up to what your employer will match, or a lesser amount that includes gradual increases in your contribution percentage.
- If self-employed, are you utilizing a retirement plan for your own business?
- Are you or your spouse eligible to make contributions to a Roth IRA or a Traditional IRA?
- Have you assessed whether it is better to contribute to a Roth account versus a Traditional account based on estimated current and future tax rates along with your time horizon?
- Have you considered funding a 529 college savings plan to save for college expenses?
- Are you eligible to contribute to a health savings account? It offers tax benefits for contributions and also distributions if used for qualified medical expenses.

☐ Review the location of your investments for tax efficiency

- Do you have investments in taxable accounts that distribute nonqualified dividends or taxable interest?
- Do you have actively managed funds/accounts that are generating significant capital gains?
- Could these investments be held in tax-advantaged accounts instead?

☐ Evaluate the tax impact of the investments you select for your taxable accounts

- Determine whether taxable versus tax-exempt bonds or bonds funds are better for your situation.
- Work with a financial advisor to identify investments that will distribute primarily qualified dividends. These dividends are taxed at a lower rate than nonqualified dividends.
- Mutual funds can distribute capital gains at year-end which may be difficult to predict. If this is a concern for you, review other investment options that could offer more control over the recognition of capital gains.

☐ Monitor your gains and losses for the year, including expected capital gain distributions from funds

- If you expect a net gain, consider realizing available losses to offset the gain and reduce your tax bill.
- Realizing losses in excess of gains may also be helpful. Up to $3,000 per year in excess capital loss may be used to offset other higher taxed income. Any remaining capital losses will carry forward to future years.

Investment and Insurance Products: • NOT FDIC Insured • NO Bank Guarantee • MAY Lose Value

☐ Review your charitable giving strategy

- Consider gifting appreciated securities you have held more than one year instead of cash. This strategy provides two benefits. You avoid paying tax on the unrealized capital gains in the shares that are gifted and potentially receive a charitable deduction.
- If you are over age 70½, consider making gifts directly to a qualified charity from your Traditional IRA. This is known as a qualified charitable distribution (QCD). A QCD is a tax-free distribution.
- Consider a bunching strategy. If your itemized deductions are less than the standard deduction, your charitable gifts are not reducing your tax bill. Bunching a couple years' worth of charitable contributions into the current year may increase your itemized deductions above the standard deduction threshold so you can receive a tax benefit for those gifts.

☐ Review your prior year tax return for carryforward items

- Remember to include your capital loss carryforward when netting gains and losses for year-end planning.
- If you have a charitable contribution deduction carryforward, confirm that you will be able to utilize the full amount within the five-year carryforward period. Your tax advisor will be able to help with this analysis and suggest any action needed to take full advantage of the deduction.

☐ Work with your tax advisor to estimate your current year taxable income

- Are you able to take advantage of the 0% capital gains tax bracket?
- Will your income fluctuate this year such that it would benefit you to defer or accelerate income?
- Determine what tax strategies make the most sense for your situation.

Make it a team effort

As with any type of decision, the best choice is made when you have all of the information you need. Your financial advisor will have a significant amount of information that is needed to get started. However, additional information about your tax situation may be needed, too. Communicating with both your financial advisor and tax advisor to make these decisions will provide the best outcome.

Additional Resources

For more information on tax-efficient investing, you may also request these reports:

- Tax Strategies for Higher-Income Taxpayers
- Charitable Giving Strategies
- Managing Capital Gains and Losses
- Tax Treatment of Dividend Income

Making the right move

Deciding what moves to make can be challenging. It is important to remember the many considerations that go into investment decisions, such as:

- Investment objective
- Asset allocation
- Type of investment vehicle
- Time horizon
- Risk tolerance

Tax efficiency should not outweigh these other considerations.

Wells Fargo Advisors is not a tax or legal advisor. While this information is not intended to replace your discussions with your tax advisor, it may help you to comprehend the tax implications of your investments and plan efficiently going forward.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and nonbank affiliates of Wells Fargo & Company.
© 2021 Wells Fargo Clearing Services, LLC. All rights reserved. CAR-0321-00599 IHA-6945202