INCOME-EFFICIENT INVESTING

Understanding Long-Term Capital Gains, Qualified Dividends, and Municipal Bonds

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STONEBRIDGE CAPITAL ADVISORS

Clarity, Without the Complexity

Having an investment partner who understands the effects of taxes on your overall financial goals is key to your investment success.

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Overview

Addressing your taxes and how they relate to your investments doesn't have to wait until tax season. It is important to regularly review your tax situation and how well your investments are aligned with helping achieve your financial goals.

At Stonebridge Capital Advisors, we work with our clients and their tax consultants to understand the tax advantages and liabilities associated with various investment income sources. By creating tax-efficient solutions, this helps optimize a client's portfolio and their long-term investment objectives.

In this article, we examine the tax benefits of long-term capital gains, qualified dividends, and municipal bonds, and how individual holdings and professionally managed portfolios can enhance tax-efficient income strategies.

Long-Term Capital Gains

Definition and Tax Treatment

Long-term capital gains are profits from the sale of assets held for more than one year. Depending on the taxpayer's income level, capital gains are typically taxed at a lower rate – the current long-term capital gains tax rates are 0%, 15%, or 20%[1]. In contrast, short-term capital gains and non-qualified dividends are taxed as ordinary income.

Benefits of Individual Holdings

Owning individual assets allows investors to strategically manage the timing of asset sales to maximize tax benefits. By holding assets for over a year, investors can take advantage of the lower tax rates on long-term capital gains, thereby reducing their overall tax liability.

Professional Management

A professionally managed portfolio can help in identifying and executing tax-efficient strategies. Portfolio managers can implement tax-loss harvesting[2], offsetting gains with losses to minimize taxable income. Additionally, they can ensure that asset sales are timed to optimize tax outcomes, aligning with clients' financial goals.

Qualified Dividends

Definition and Tax Treatment

Qualified dividends are dividends paid by U.S. corporations or by qualified foreign corporations that meet specific criteria. These dividends are taxed at the same favorable rates as long-term capital gains, rather than at the higher ordinary income tax rates.

Benefits of Individual Holdings

Investors holding individual stocks that pay qualified dividends can benefit from the lower tax rates, enhancing their after-tax income. This approach allows for greater control over the selection of dividend-paying stocks, aligning with personal investment preferences and risk tolerance.

[1] Stated rates are for federal income tax purposes only. Please consult with your tax advisor or legal professional for state income tax rates.
[2] Tax-loss harvesting involves certain risks. You may not see any benefit or you may experience a loss if the investments bought with proceeds from tax-loss harvesting sales underperform the investments sold or have higher costs than the harvested securities.

Professional Management
To determine whether a dividend is qualified, an investment must receive a proper tax classification. At Stonebridge Capital Advisors, we work to curate a selection of dividend-paying stocks that not only provide regular income but also meet the criteria for qualified dividends. This ensures that clients receive tax-advantaged income, contributing to a more tax-efficient investment strategy.

Municipal Bonds

Definition and Tax Treatment
Municipal bonds are debt securities issued by state and local governments. The interest income from these bonds is generally exempt from federal income tax and, in some cases, state and local taxes as well.

Benefits of Individual Holdings
Investors can select municipal bonds that align with their tax situation, potentially avoiding state and local taxes on interest income. This can be particularly beneficial for high-income individuals seeking to reduce their taxable income.

Professional Management
A professionally managed municipal bond portfolio can provide diversification and risk management, while also focusing on tax efficiency. Portfolio managers can select bonds from various issuers and regions, optimizing the tax-exempt income for clients.

Taxes and Your Investment Goals: Keeping Top of Mind

It is important to understand how the investment income from your portfolio is taxed. Long-term capital gains, qualified dividends, and municipal bonds may provide tax benefits and are essential for creating tax-efficient investment strategies. Both individual holdings and professionally managed portfolios offer unique advantages in achieving these goals. By leveraging the expertise of Stonebridge Capital Advisors, clients can optimize their portfolios to maximize after-tax income and achieve their long-term financial objectives.

While taxes can affect investment returns, they should not be the sole factor when making an investment decision. At Stonebridge, our approach to investment management begins and ends with the client. We gain an in-depth understanding of your long-term goals and financial objectives. This includes identifying your values, risk tolerance and return expectations, income or growth needs, time horizon, tax implications, and any other aspects that assist us in managing your portfolio.

Working with you and your tax advisor, we manage your portfolio to align with your investment strategy, helping achieve your financial goals in a tax-efficient manner.

Speak with a Stonebridge Capital Advisors Professional

We always welcome the opportunity to work with you. If you are interested in learning more about how our expertise can elevate your investment strategies, please do not hesitate to contact us today!

Important Disclosure Information
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Risk Considerations
Forecasts and targets are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. There can be no assurance that any investment strategy will be successful and meet its investment objectives. Investments fluctuate with changes in market and economic conditions and across different environments due to multiple factors, some of which may be unpredictable. Asset allocation and diversification do not guarantee investment returns or eliminate risk of loss. All investing involves risks, including the possibility of a loss of principal. Past performance is not necessarily indicative of future results.

Additional information may be available upon request.