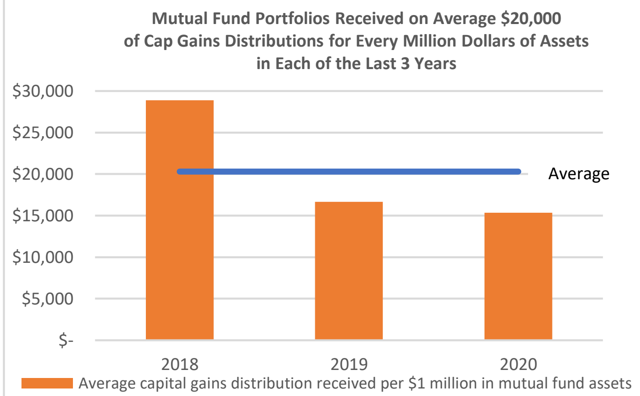
September 20, 2021

Harvesting Strategy

'Tis the Season for Cap Gain Distributions Estimates (But They Needn't Be So Taxing)



Source ICI. Capital gains distributions include long-term and short-term capital gains.

Fall officially begins this Wednesday, and in many parts of the country, you can feel the change in the air and see the glorious changing colors of leaves. A less glorious display may be anticipated in this year's estimates of year-end capital gains distributions.[1]

For example, 2021 estimates for several funds from the top 3 fund families already exceed 2%, which was the average distribution size across all mutual funds over the last 3 years – see chart.[2] In addition, given year-to-date returns and the potential effect of investor redemptions, distributions for certain individual funds could be 5%, 10%, 20% or even higher. A 10% capital gain distribution on a $1M fund position translates to $100,000 in taxable gains, which could cost the investor up to $40,800 in Federal income tax alone (assuming the highest tax bracket on short-term gains).

Fortunately, there are solutions to these challenges. Investors can look to offset potential tax bites by transitioning existing holdings and/or maximizing Tax Loss Harvesting opportunities elsewhere in their portfolios. It's not too late. Talk to us to learn more.

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[1] These distributions stem from realized gains that occur within the mutual funds themselves when underlying securities are sold at a profit. Neither mutual funds nor ETFs can pass through to investors any realized losses that accrue within their portfolios.

[2] See for example, websites of top mutual fund families: Fidelity, Vanguard and American Funds for latest estimates

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