



## Tax Planning for Specific Types of Investments

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Investment tax planning can help you maximize after-tax returns on your investments. Tax planning for specific types of investments helps you identify which types of investments are best suited to your unique situation. Because different types of investments produce income or gains that may be taxed differently, you need to know how specific investments attempt to earn money and how those earnings are taxed. You also need to know how to treat any gain or loss when you sell your investments.

How do investments earn money?

Your investments can earn money in two ways: (1) they may generate income (such as dividends, interest or rent) and/or (2) they may appreciate in value and can potentially be sold at a profit.

How are investment earnings taxed?

Some investment earnings may be tax-exempt. Some may be tax-deferred. Other earnings may be classified as ordinary income, taxable at ordinary income tax rates. Finally, other earnings may be taxed at the more favorable long-term capital gains tax rates.

*Long-term capital gains are generally taxed at special capital gains tax rates of 0%, 15% and 20%, depending on your taxable income. The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated. It depends on the amount of your net capital gains, qualified dividends and your taxable income.*

Generally, long-term capital gains tax rates are more favorable than ordinary income tax rates. Currently, the highest ordinary income tax bracket is 37%, while the highest long-term capital gains tax rate (for most types of assets) is 20%. That's a difference of 17%.

*Qualified dividends received by an individual shareholder from a domestic corporation (or a qualified foreign corporation) are taxed at long-term capital gains tax rates.*

In addition, the 3.8% net investment income tax applies to some or all of your net investment income if your modified adjusted gross income exceeds \$200,000 for single or head of household taxpayers; \$250,000 for married filing jointly; or \$125,000 for married filing separately. Net investment income can include interest, dividends, capital gains, rents, royalties, non-qualified annuities and income from trading financial instruments or commodities.

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