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How advisors add value by saving you money in taxes

One way advisors can add value to your bottom line is by helping you to minimize your tax bill. It's referred to as tax efficiency. There are two main ways that advisors can help with tax efficiency: By limiting the tax liability in a taxable brokerage account and by using—and managing—tax-preferred accounts.

Brokerage accounts

- Holdings in brokerage accounts are subject to annual taxes on realized or distributed capital gains, dividends, and interest payments.
- If your modified adjusted gross income is high enough—for example, more than $250,000 if married filing jointly—your investment gains may also be subject to the 3.8% Medicare surtax.

In general, paying taxes is a good problem to have, because it means you made money. But your advisor's job is to reduce the performance drag on your portfolio from taxes.

Four techniques you and your advisor can use to help your brokerage account be tax-efficient:

Employ tax-efficient strategies when buying and selling investments. Index funds and municipal bond funds are particularly suitable for taxable accounts.	Avoid excessive movement into and out of mutual funds, exchange-traded funds, and other securities.	Use appreciated securities to make charitable donations and significant gifts to friends and relatives.	Harvest losses in one or more holdings to offset gains or income.

Tax-preferred accounts

The U.S. tax code encourages saving for retirement, higher education, health care, or to supplement the finances of those with disabilities. There is an array of account types that will help money grow shielded from annual taxation.

Your advisor can help you develop a strategy to determine how much to put in tax-preferred accounts, at what times, and which investments to use in those accounts since your advisor considers your entire financial picture and particular life situation, both now and in the future.

Perhaps more critically, your advisor can help you draw down money in a tax-efficient manner, especially right before and during retirement, since your advisor considers the tax and other implications of Social Security benefits, Medicare, and estate planning. *Tax-deferred* saving, such as in a traditional IRA or 401(k) plan, can be especially effective in attaining your long-term goals.

Types of tax-preferred accounts include:

- Individual retirement accounts (IRAs)
- Roth (IRAs)
- 401(k)s
- 529 accounts
- Health savings accounts
- ABLE accounts

Tax efficiency across different types of accounts

The primary reason to put particular assets in a certain account or fund is to defer taxes as long as possible. Those asset location decisions are more significant for investors with long-term investment horizons.

An asset location hierarchy

What should go where?	
For tax-advantaged accounts, consider these types of investments:	• Taxable bond funds; bond index funds • Actively managed stock funds • Broad-market stock index funds
For taxable accounts, consider these types of investments:	• Tax-managed stock funds • Broad-market stock index funds • Municipal bond funds (depending on tax bracket) • Taxable bond funds; bond index funds (depending on tax bracket)

Source: Vanguard.

Talk to your advisor to learn more

Financial advisors: Visit advisors.vanguard.com or call 800-997-2798

Past performance is no guarantee of future results. All investing is subject to risk, including possible loss of principal. Diversification does not ensure a profit or protect against a loss.

Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could perform worse than the original investment, and that transaction costs could offset the tax benefit. There may also be unintended tax implications. We recommend that you consult a tax advisor before taking action.

For more information about any 529 college savings plan, contact the plan provider to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other information; read and consider it carefully before investing. If you are not a taxpayer of the state offering the plan, consider before investing whether your or the designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Vanguard Marketing Corporation serves as distributor and underwriter for some 529 plans.

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