

Edward Jones®

Perspective

February 2024

How are my investments taxed?



How are my investments taxed?

- **Three main types of investment taxes:**

1. Interest income
2. Dividends
3. Capital gains

- **Ways to potentially reduce your future tax burden**





Interest income

What is it?

- **The income a taxpayer receives from certain types of accounts or for lending money to someone else**
- **These include:**
 - Interest on checking and savings accounts and CDs
 - Interest on fixed-income investments such as Treasury, corporate and municipal bonds



Interest income (cont.)

How is it taxed?

- **Federal level:** Interest is taxed as ordinary income, subject to your marginal tax rate
- **State level:** Interest is subject to the rules imposed by that jurisdiction

Dividends

What are they?

- A form of distribution by a company to its shareholders
- Typically distributed as cash
- **Dividends aren't required** — many companies choose not to issue them



Dividends (cont.)

How are they taxed?

- **Ordinary (nonqualified) dividends** are taxed as ordinary income, subject to your federal marginal tax rate
- **Qualified dividends** are taxed according to your capital gains tax rate
- **Holding period and investment type** determine a dividend's tax status





Capital gains

What are they?

- The difference between an investment's sale proceeds and cost basis
- An investment that has increased in value may have a capital gain; one that has decreased in value may have a capital loss
- Mutual funds can also show a long-term capital gain distribution



Capital gains (cont.)

How are they taxed?

- **Long-term capital gains** — hold the investment for more than a year, receive a mutual fund capital gain distribution or inherit an investment
- **Short-term capital gains** — hold the investment for one year or less
- This classification determines how they are taxed



Capital gains (cont.)

How are they taxed? (cont.)

Capital gains are netted together on your tax return for one of the following:

- **A loss** — up to \$3,000 can be used to offset ordinary income, carrying the remainder forward
- **A net short-term capital gain** — taxed as ordinary income, subject to your individual marginal tax rate
- **A net long-term capital gain** — applied to your long-term capital gains rate, which is based on your taxable income

Where do I find my investment income?

- Form 1099 shows an investment's interest and dividend income, related tax status, sale proceeds and adjusted cost basis
- Brokerage firms (such as Edward Jones) may send you a consolidated Form 1099



Opportunities to manage your taxes

Interest income

Municipal (muni) bonds' interest isn't subject to federal — and potentially state — taxes. Avoid placing muni bonds in tax-deferred accounts.

Dividends and capital gains

Hold investments in taxable account longer term instead of buying and selling frequently.

Capital gains

Talk to your tax advisor about tax-loss harvesting.

How your Social Security benefits are taxed

Fact 1

Social Security tax thresholds are not adjusted for inflation.

Impact: While benefits have increased, the combined income threshold for tax purposes has not. The increase may mean more of your benefits will be taxed.

Fact 2

Certain states tax Social Security benefits.

Impact: You may need to pay state taxes on your benefits depending on where you live.

How your Social Security benefits are taxed (cont.)

Fact 3

Withholding benefits can help reduce your year-end tax bill.

Impact: File IRS Form W-4V with the Social Security Administration to request a percentage of your monthly benefits to be withheld.

Fact 4

Certain retirement accounts do not count toward your combined income.

Impact: How much you take out from some retirement accounts can affect the amount of your Social Security benefits that may be taxed. Consult your tax advisor for details.

Does your estate plan account for state-level taxes?

Estate taxes

Levied against your estate

Inheritance taxes

Paid by your beneficiaries



Does your estate plan account for state-level taxes? (cont.)

Federal government

Imposes an estate tax above a certain exemption

State governments

Can impose an estate tax and/or an inheritance tax



Does your estate plan account for state-level taxes? (cont.)

Federal estate taxes

Lifetime estate/gift tax exemption of \$13.61 million for 2024

State estate taxes

Typically have much lower exemptions



State estate tax vs. inheritance tax

Those with estate tax

- Connecticut
- District of Columbia
- Hawaii
- Illinois
- Maine
- Maryland
- Massachusetts
- Minnesota
- New York
- Oregon
- Rhode Island
- Vermont
- Washington

Those with inheritance tax

- Iowa*
- Kentucky
- Maryland
- Nebraska
- New Jersey
- Pennsylvania

*Repealing its inheritance tax starting in 2025

5 tax-filing mistakes and how to help avoid them

1. Filing by mail

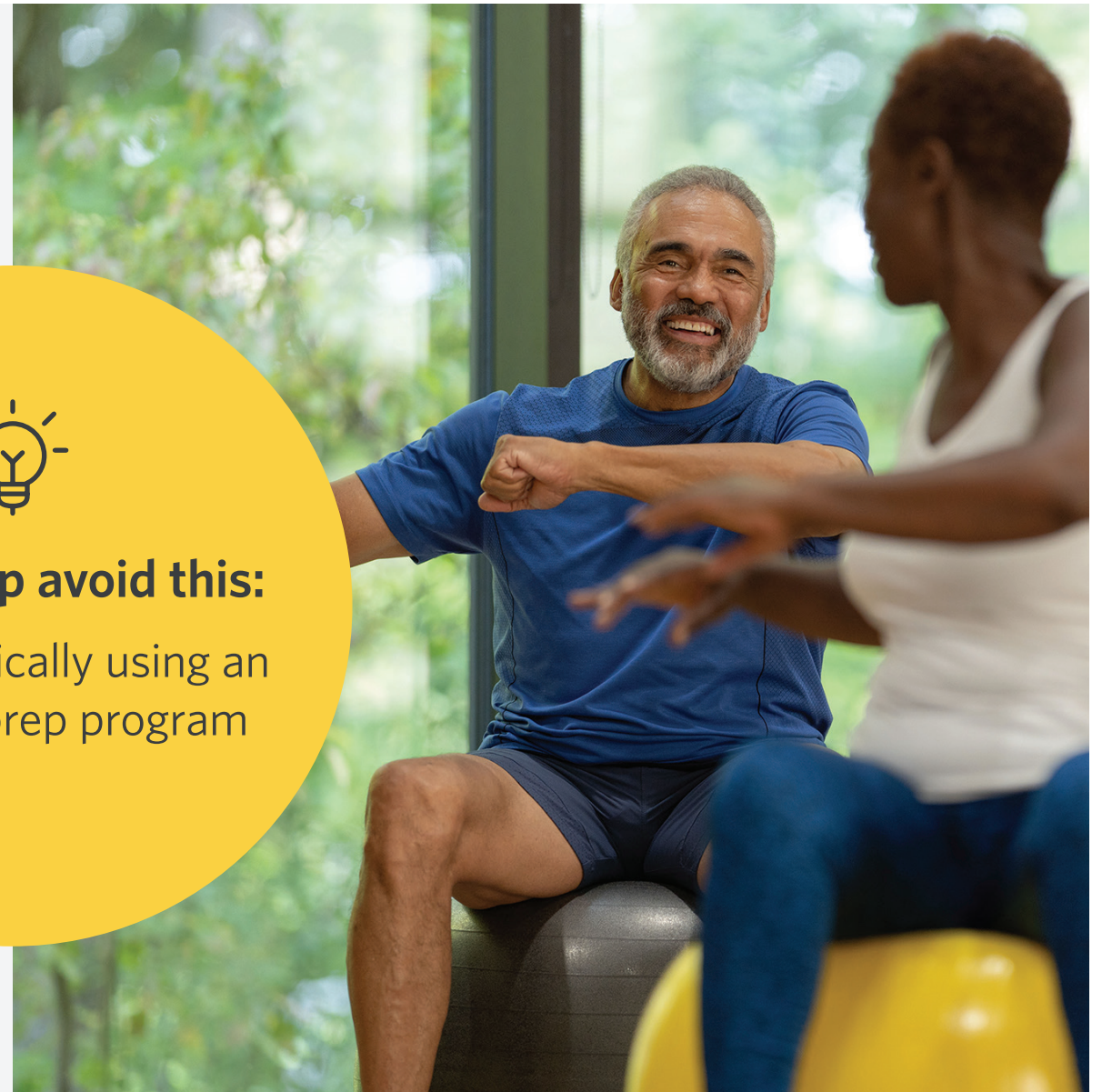
What can go wrong:

- Calculation errors
- Using the wrong column from tax tables
- Missing, incomplete or unsigned forms
- Out-of-order paperwork
- Mailing to an incorrect address



How to help avoid this:

File electronically using an online tax prep program



5 tax-filing mistakes and how to help avoid them (cont.)

2. Choosing less advantageous filing elections

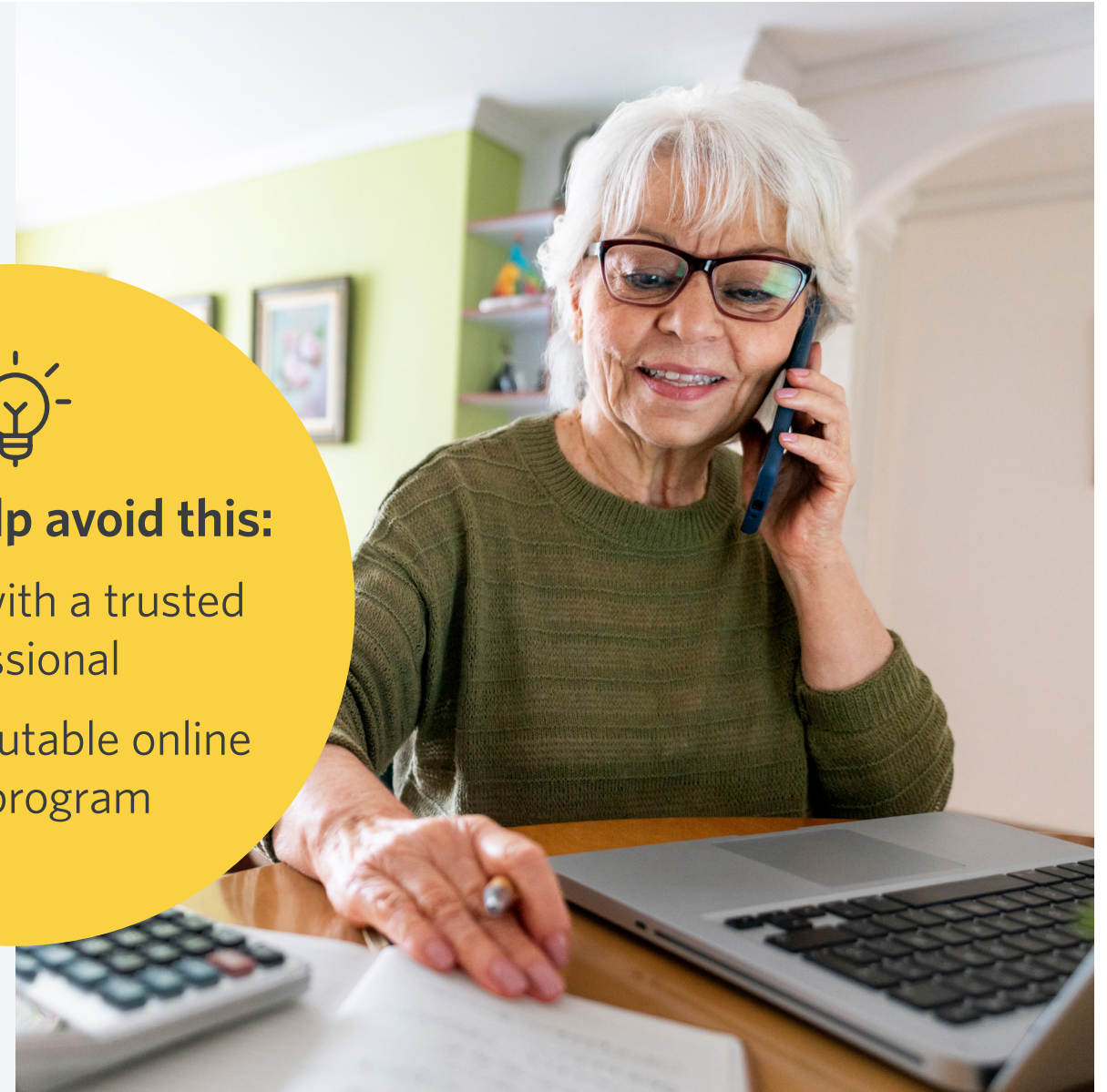
What can go wrong:

- You may not receive all the deductions you're due



How to help avoid this:

- Consult with a trusted tax professional
- Use a reputable online tax prep program



5 tax-filing mistakes and how to help avoid them (cont.)

3. Entering information incorrectly

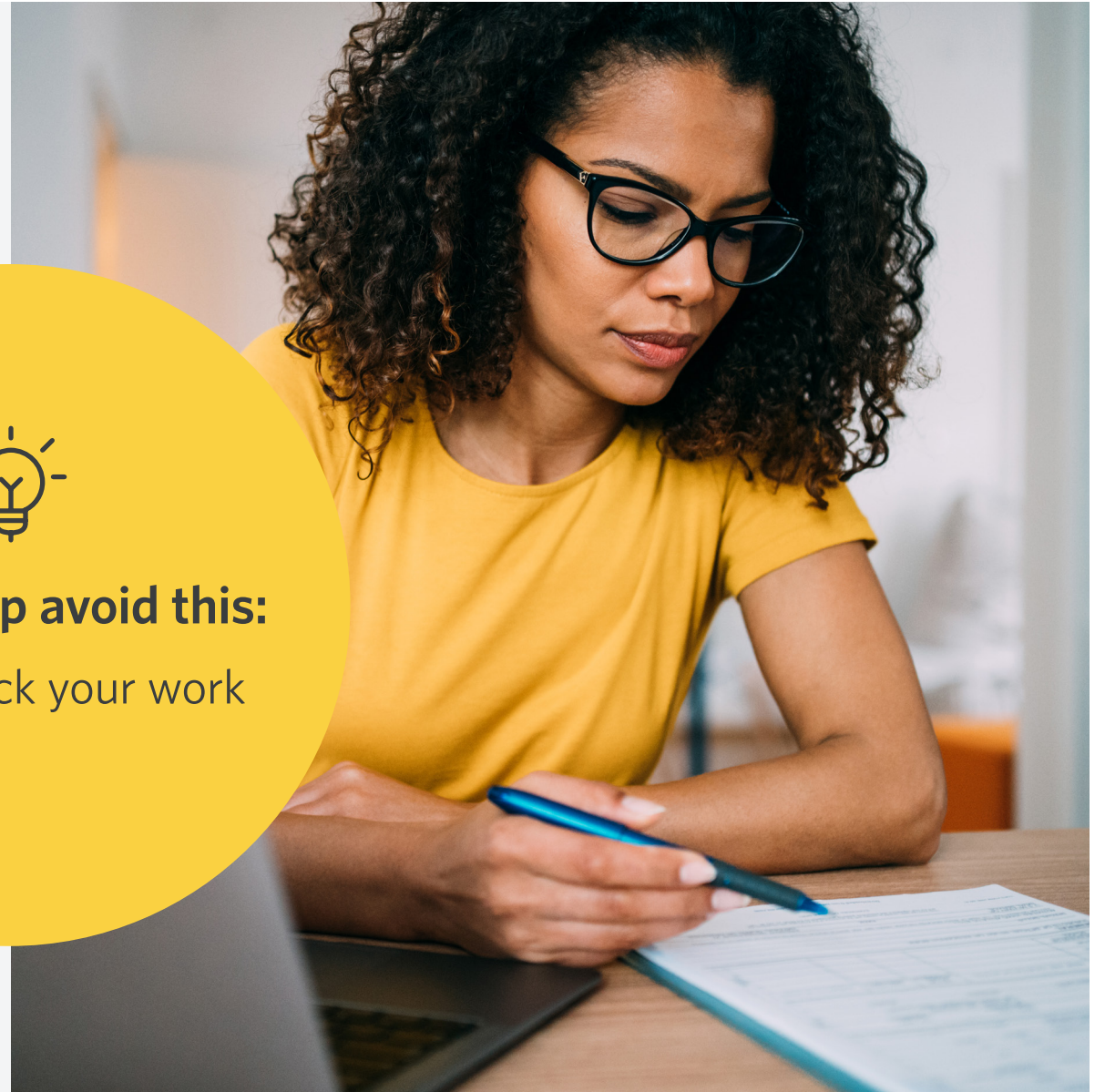
What can go wrong:

- Inaccurate information can result in late fees or auditing



How to help avoid this:

Double-check your work



5 tax-filing mistakes and how to help avoid them (cont.)

4. Filing too early or too late

What can go wrong:

- Filing too late can result in a penalty
- Filing too early might mean you need to file an amendment



How to help avoid this:

Use a tax-filing checklist to ensure you have everything you need before you file



5 tax-filing mistakes and how to help avoid them (cont.)

5. Receiving your refund by check

What can go wrong:

- Delay in receiving your refund



How to help avoid this:

Use direct deposit to your bank account



6 tips to help you avoid common tax scams

1



Be wary of unsolicited communication from the “IRS”

2



Freeze your credit with the major credit rating bureaus ([identitytheft.gov](https://www.identitytheft.gov))

3



File your taxes as early as possible (**once you have all necessary documents**)

6 tips to help you avoid common tax scams (cont.)

4



Get an Identity Protection PIN (**IP PIN**) from the IRS

5



Work with a reputable tax preparer

6



Report tax fraud to the IRS (**irs.gov**)



Important information

Edward Jones, its employees and financial advisors cannot provide tax or legal advice. You should consult your attorney or qualified tax advisor regarding your situation.

More information available

- This month's issue of *Edward Jones Perspective* contains more in-depth coverage of the topics discussed today
- Please be sure to complete your seminar evaluation form
- Please contact me with any further questions or to schedule an appointment

Thank you for your time!

