00:00:00,040 --> 00:00:18,960 [Speaker 0]
[instrumental music] Welcome to the PlanVision podcast, where we share simple, straightforward investment and planning ideas for normal people. The description in this podcast is for informational purposes only. Do not construe this as personal tax, financial, or legal advice for your situation.

00:00:23,940 --> 00:00:36,380 [Speaker 1]
Hey, it's Mark back with a kind of a short podcast here that's time-sensitive with Jason Lynch, talking about some of the year-end distributions from some investments that most of our clients don't use, but some might. Hey, Jason, how are you?

00:00:36,580 --> 00:00:37,740 [Speaker 2]
Hi, Mark. Good, thanks.

00:00:37,740 --> 00:00:46,060 [Speaker 1]
So you noticed in looking at some of the reported dividend payments or year-end payments from some of the funds that some of them are quite high. Can you comment on what you saw?

00:00:46,340 --> 00:01:07,200 [Speaker 2]
Right. Yeah. In particular, I was looking at the Vanguard Tax Center. Vanguard publishes along with all the other fund companies. They publish their preliminary capital gains distribution estimates around this time of the year. And generally, when funds have a capital gain distribution, it's from actively managed funds as opposed to generally index funds.

00:01:07,580 --> 00:01:35,320 [Speaker 1]
Yeah. So that's what you noticed, and this is, I suppose, another argument in the long history of arguments for actively... for using index funds is the tax efficiency, which does matter. It's a real cost. And this is... only applies to the brokerage account. You can be as tax inefficient as you want in Roth accounts or in pre-tax accounts, but in your brokerage account, it does matter. And for some people in higher tax brackets, it can get, can get pretty expensive, these year-end distributions, correct?

00:01:35,700 --> 00:02:01,840 [Speaker 2]
Yeah, definitely correct. In fact, I have a couple examples to, to mention. With Vanguard, there are some actively managed funds. In particular, the dividend growth fund actually has a projected distribution of about 19% of its total net asset value, and there's even a more egregious one down here. If you look at the Vanguard page, it's 24.45% of net asset value from the US Growth Fund. So those are, are pretty significant.

00:02:02,240 --> 00:02:30,360 [Speaker 1]
Yeah, we looked at those, talked through those a little bit, and, uh, those are big numbers. And these are from Vanguard. Now, Vanguard does offer actively managed funds as an alternative option for those folks that want that kind of thing, even though they're, they're the indexers, and that's what they started. So you gotta be careful, at least be aware of these things, you know, when you make these decisions about what to invest in. Is there anything that somebody could do before year-end if they wanted to try to do something about this potential payment?

00:02:30,700 --> 00:03:06,260 [Speaker 2]
Sure, definitely. So looking at the portfolio, somebody could go to... We'll have a link on our website, a link to all of the fund companies with their capital gain distributions. And what you would do is if there's a holding that's going to pay out a dividend, you could look at selling some, most, or all of that particular holding. You don't have to sell all the shares, but the more shares you sell, the less capital gain distribution you'll get now and likely in the future. And the

important date there is that you would want to sell prior to the record date because you don't want to be the person, the owner of record to receive the capital gain distribution. So that's one way.

00:03:06,600 --> 00:03:08,480 [Speaker 1]
You mentioned another way, possibly donating.

00:03:08,860 --> 00:03:29,960 [Speaker 2]
Right. Good idea. Donating funds. If you're charitably inclined anyway, take a look at possibly donating shares that have the most amount of growth that also happen to have a capital gain distribution on tap. Donate before the capital gain distribution so you get the fair market value of the donation without needing to record any capital gain distribution income.

00:03:30,300 --> 00:03:32,760 [Speaker 1]
All right. Or I guess you just hold on to them and pay the tax too. That's-

00:03:33,200 --> 00:03:52,940 [Speaker 2]
You can, you can hold on to it and wait for the step-up in basis. You know, death is one of the best tax planning techniques we have. One other idea is you could gift some shares to another, to a friend or family member. If you're going to gift anyway, if they're your young children, you have to watch out for the kiddie tax. But again, we're just trying to maintain a tax-efficient portfolio.

00:03:53,140 --> 00:04:19,880 [Speaker 1]
All right. So we're going to include a list, a link to a list of a lot of different mutual fund companies. I'm not sure if it's completely exhaustive, but I think it's pretty detailed, that will outline these. And now this, again, only applies if you're listening to this podcast and you want to go research this, this only applies to investments in a brokerage account. It's not a factor if you have mutual funds inside of a 401[k], 403[b], an IRA, a Roth, or anything, or anything that's tax-protected. Thanks a lot, Jason. Appreciate it.

00:04:19,880 --> 00:04:20,320 [Speaker 2]
My pleasure.

00:04:20,720 --> 00:04:28,160 [Speaker 0]
Thank you for listening to the PlanVision podcast. Let us know if you have any questions or comments on the topics covered. [instrumental music]