LEARN | Tax Treatment of Different Investment Vehicles

Mutual funds, exchange-traded funds (ETFs) and separately managed accounts (SMAs) each have a place in your client's portfolio, but there are different considerations to keep in mind when it comes to taxation and asset location.

Key Takeaway

By understanding how each investment vehicle is taxed, you'll be better positioned to guide clients in making tax-smart asset allocation and asset location choices.

Comparison of Mutual Funds, ETFs and SMAs

Although mutual funds, ETFs and SMAs share many of the same characteristics, there are several distinguishing features to consider.

	Mutual Funds	ETFs	SMAs
Customization	No	No	Yes, allows for the exclusion of individual holdings based on investor preferences.
Funding	Cash	Cash	Cash or in kind
Tax Treatment	**Tax Inefficient** Trading activity from rebalancing and redemption can cause capital gain allocations to investors.	**Tax Efficient** Fund structure enables the mitigation of capital gain realization caused by rebalancing and redemptions.	**Tax Managed** Holding individual securities allows an investor to elect for loss harvesting* and enables better control of gain realization.
Locations to Consider	Tax deferred and tax exempt accounts	Either tax deferred, tax exempt or taxable accounts	Taxable accounts

Next Step

Review your client's portfolios. Identify possible opportunities for improved asset location. Meet with clients to discuss.

*For illustrative purposes only. Not a recommendation to buy or sell any security. All investments are subject to risks, including risk of loss. Elements of this analysis include comparisons of different account types and investment vehicles each of which have distinct trading, expense, tax and risk characteristics. This is not a comprehensive description of all differences between the vehicles described. Tax saving strategies should not undermine one's investment goals.

The Firm does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. Tax laws are complex and subject to change. Investors should always consult their own legal or tax professional for information concerning their individual situation.

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