



WEALTH MANAGEMENT

Tax-Smart Strategies for Selling Securities

Realizing profits may seem like the best part of investing, but taxes can add up. Our analytics tool can help investors tap their portfolios in tax-savvy ways.

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Key Takeaways

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• Drawing down your portfolio in an efficient manner requires a strategic approach that considers taxes, potential future gains, and your asset-allocation target.

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- Morgan Stanley's Intelligent Withdrawals tool can help you and your Financial Advisor determine the well-suited strategy for you.



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Intelligent Withdrawals

Liquidating assets to meet a goal can be a land mine of tax risk. Your Financial Advisor can help you navigate the complexities with Total Tax 365 and Intelligent Withdrawals.

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You've finally found the vacation home of your dreams and are ready to make an offer. Or, perhaps you've recently retired and are ready to begin drawing income from your portfolio while you plan your next big trip or perhaps you are looking to stave off tapping Social Security for a few more years. After years of investing, you're confident you've got the funds to cover these expenses, but tapping your account may trigger an unwelcome surprise: taxes.

Indeed, many investors trip up at this stage of realizing profits. They sell securities that trigger large amounts of taxable gains or are subject to higher federal income tax rates, instead of those that may result in a lower tax liability, or they short-change future potential investment gains and income by selling assets unnecessarily early or locking in losses in a down market.

A potentially more tax-efficient solution exists. Morgan Stanley's Intelligent Withdrawals tool uses sophisticated analysis across all your accounts to efficiently find a suitable withdrawal strategy to help reduce the federal income taxes you may owe. This streamlined analysis helps determine not only which accounts to draw from first, but also which securities *within* those accounts you should sell to help achieve tax efficiency and maintain your investment strategy.



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Sequencing Withdrawals

Investment accounts typically fall into three tax-related categories:

- **Taxable:** Liquidating investments (referred to in this document as “withdrawals”) results in capital gains tax liability, but only on the growth of the investment, not the principal balance you contributed. Example: brokerage accounts
- **Tax-deferred:** Investments are typically made with pre-tax dollars, but when you take money out, the full amount is subject to ordinary federal income tax. Example: traditional individual retirement accounts (traditional IRAs)
- **Tax-exempt:** All investment income, growth and withdrawals are tax-free upon withdrawal. (In some cases, the withdrawn amount must be used for qualified purposes.) Examples: Roth IRAs, Health Savings Accounts

The Intelligent Withdrawals tool may help by suggesting a suitable order to tap funds to preserve the benefits of tax deferrals. It also provides your Financial Advisor with the flexibility to customize the liquidation order to help reduce taxes throughout your retirement. Taking some withdrawals from tax-deferred accounts early in retirement, for example, could help keep you in a lower tax bracket when you later need to withdraw required minimum distributions, or RMDs. Withdrawals from some types of accounts will be includible in your taxable income and may be subject to an additional tax if you are under the age of 59 ½.

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that have increased in value since you purchased them. The amount you owe will depend on how

long you've owned a specific security, how much its value has appreciated and your federal income tax rate in the year you sell it.

The Intelligent Withdrawals tool's sophisticated technology helps your Financial Advisor determine which "tax lots," or lots of a security which have its own purchase date price, and may result in a lower tax liability if sold on a specific purchase date.

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The Intelligent Withdrawals tool could help by suggesting a suitable order to tap funds to preserve the benefits of tax deferrals.

Harvesting Tax Losses

Did you know that investment losses in taxable accounts can potentially become tax benefits through a process called **tax-loss harvesting**? Under current U.S. tax law, you may offset your capital gains with capital losses incurred during that tax year, subject to certain requirements, or carried over from a prior tax year, provided the transaction satisfies tax law requirements, including the "wash sale" rule.

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tool can help your Financial Advisor swiftly identify and help you act on opportunities to harvest



losses or gains in certain taxable accounts, at any point during the tax year.

Maintaining Your Investment Strategy

You and your Financial Advisor have likely decided on the best mix of stocks, bonds, cash, and other asset types to help you meet your short- and long-term goals. Selling securities can throw that asset allocation out of balance.

The tool helps your Financial Advisor consider your asset allocation, so that you can maintain the overall strategy for your portfolio after your sell decisions.

Determining the best approach to tapping your portfolio without adjusting your investment strategy can be a complicated task. Contact your Morgan Stanley Financial Advisor to learn how Intelligent Withdrawals may help you meet your spending needs, potentially reduce your tax burden and potentially improve investment results, all while helping you stay on track toward your goals.

Questions to Ask Your Morgan Stanley Financial Advisor:

- If I withdraw funds from my accounts, what strategy do you recommend to potentially help reduce the potential tax liability?
- Are there opportunities in my portfolio to offset capital gains I've realized with capital losses?

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