

Viewpoint Group

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Tax-Smart Strategies for Selling Securities



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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. 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 taking profits. They sell securities that trigger large tax gains or are subject to higher 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.

A potentially more tax-efficient solution exists. Morgan Stanley's new Intelligent Withdrawals tool uses sophisticated analysis across all of your accounts to quickly find the right withdrawal strategy to help reduce the taxes you may owe. This now 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.

Sequencing Withdrawals

Investment accounts typically fall into three tax-related categories:

- **Taxable:** Withdrawals are subject to capital gains tax, but only on the growth of the investment, not the principal balance you contributed. Example: brokerage accounts
- **Tax-deferred:** Investments are typically made with pretax dollars, but when you take money out, the full amount is subject to ordinary income tax. Example: traditional individual retirement accounts (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 (In some cases, the withdrawn amount must be used for qualified purposes.)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

The Intelligent Withdrawals tool may help by suggesting the best 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 to keep you in a lower tax bracket when you have to start taking required minimum distributions, or RMDs](#), later in retirement.

Minimizing Capital Gains Taxes

If you're making withdrawals from taxable accounts, you may owe capital-gains taxes on any securities 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 tax rate 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 that has its own purchase date and purchase price, may result in a lower tax bill if sold today.

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, it's usually possible to offset your capital gains with capital losses that you've incurred during that tax year, or carried over from a prior tax year.

Trying to track gains and losses can be daunting and time-consuming. Our 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 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 take into account 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 help reduce the potential tax liability?
- Are there opportunities in my portfolio to offset capital gains I've recognized with capital losses?

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