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ABOUT
COMPLEX
FINANCIAL
TOPICS.



ADORES DOGS
OF ALL KINDS
(CRAZY DOG
LADY).





Asset Location: A Key to Tax-Efficient Investing

- Learning Objectives
 - Understand Taxation of Accounts
 - Learn Taxation of Asset Classes
 - Familiarize With the 3 Buckets of Investing
 - Learn the Location of Each Asset into Each Bucket

What is Asset Location?



Asset Location \neq Asset Allocation



Asset Allocation: What types of investments you hold (stocks, bonds, real estate, etc.)

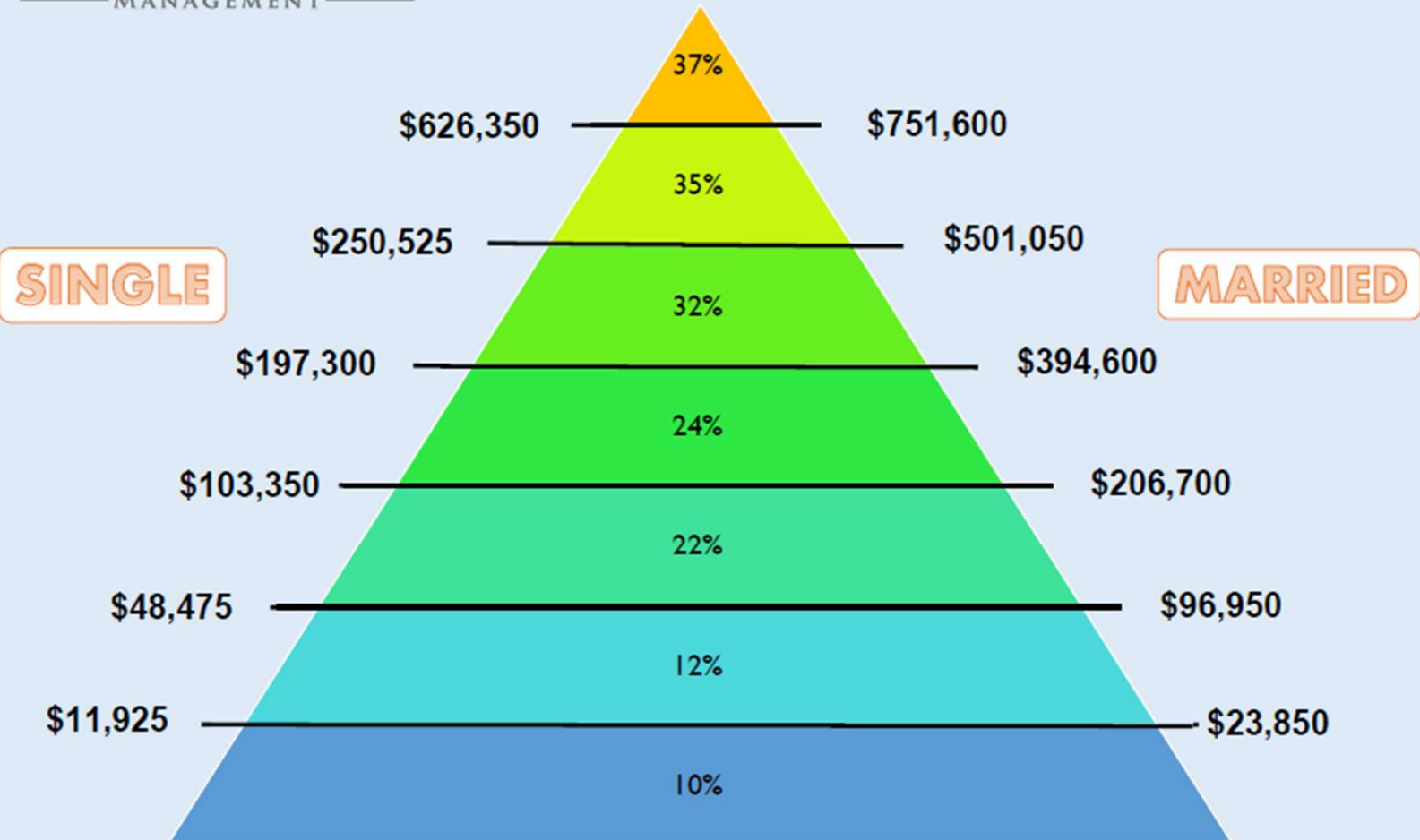


Asset Location: Where you hold them (taxable, tax-deferred, or tax-free accounts)



Purpose: Reduce Taxes, Increase Net Returns

2025 Federal Income Tax Brackets

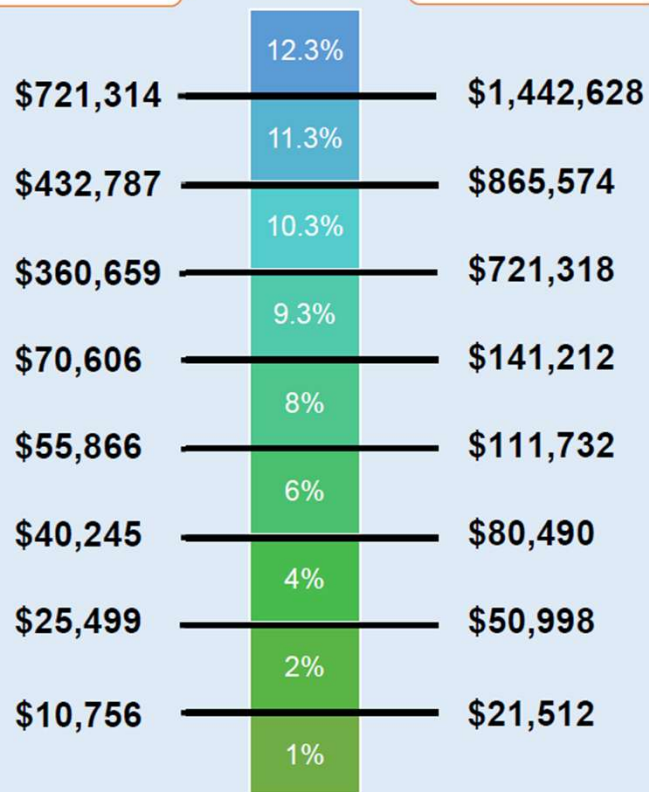


Tax Brackets - California

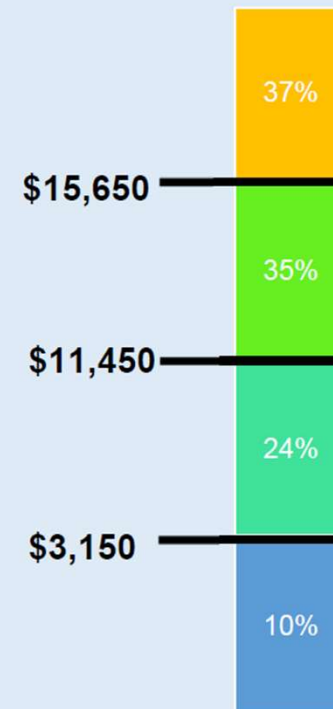
2024 CA Income Tax

SINGLE

MARRIED



2025 Trust Income Tax



Top Tax Bracket

- 37% Federal
- 12.3% California
- 1% California Mental Health Services Tax for >\$1M

PLUS....

Net Investment Income Tax (NIIT) of 3.8% if over

\$200K single or \$250K married filing jointly

Top Tax on Investment Income

54.1%



Basics of Tax Rates

- Qualified dividend (holding period over 1 year) taxed at capital gains tax rate.
- Bond interest taxed at ordinary income tax rates
- Short-Term Gain: Assets held 1 year or less; taxed as ordinary income
- Long-Term Gain: Assets held over 1 year; taxed at capital gains rate (0%, 15%, or 20% depending on income)

Ordinary Income vs Capital Gain Tax

Ordinary Income (OI) Tax

0% - 54.1%

Capital Gain Tax

0% / 15% / 20%

SCHEDULE B (Form 1040)

Department of the Treasury
Internal Revenue Service

Interest and Ordinary Dividends

Attach to Form 1040 or 1040-SR.

Go to www.irs.gov/ScheduleB for instructions and the latest information.

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

Attach to Form 1040, 1040-SR, or 1040-NR.

Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
Go to www.irs.gov/ScheduleD for instructions and the latest information.

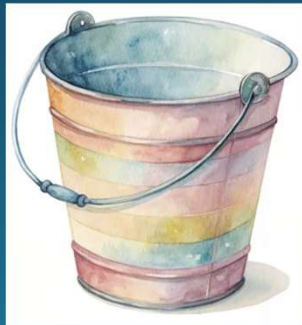
Types of Accounts – 3 Buckets

- 1. Taxable (Non-Retirement): Capital gains, dividends taxed annually
- 2. Tax-Deferred (401(k), IRA): Taxes deferred until withdrawal and then taxed at OI
- 3. Tax-Free (Roth IRA): Taxed OI in the beginning, no taxes on qualified withdrawals

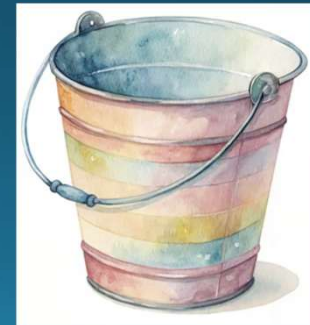
Non-Retirement



Tax Deferred



Tax Free



The 3 Buckets

It's important to have diverse retirement income options



Taxable

- Investments (stocks, most bonds, CDs)
- Taxable portion of Social Security benefits
- Profit from selling a primary home



Tax-deferred

- Pension
- Retirement savings
 - 401(k)
 - 403(b) plan
 - 457(b) plan
 - Traditional IRA
- Certain annuities



Tax-free

- Retirement savings
 - Roth 401(k)
 - Roth 457(b)
 - Roth IRA
- Life insurance cash value
- Certain municipal bonds
- Health reimbursement arrangement (HRA)
- Health savings account (HSA)
- Nontaxable Social Security benefits

Asset Location Defined

- Asset location is the process of placing different types of investments (ie stock, bond, REIT, commodity, municipal bond...) into the right bucket with consideration to **taxation** of the assets.

**Municipal
Bond**

Stock

Bond

REIT

Gold

Non-Retirement



Tax Deferred



Tax Free



Why Does Asset Location Matter?



DIFFERENT
INVESTMENTS
GENERATE
DIFFERENT
TAXES



STOCKS:
CAPITAL GAINS
& QUALIFIED
DIVIDENDS



BONDS:
ORDINARY
INCOME



REITS: MOSTLY
TAXABLE
INCOME



PROPER LOCATION MINIMIZES
ANNUAL TAX DRAG AND CAN
ADD TO YOUR RETURN

Basics of Tax Rates - Munis

- Municipal bond income is free from Federal tax
- CA Municipal bond income free from both Federal and CA State tax
- Place municipals in Non-Retirement Accounts



Basics of Tax Rates - REITS

- Real Estate Investment Trusts (REITS) dividend income taxed at ordinary income tax rates.
- At least 90% of the taxable income must be distributed to shareholders as dividends
- Not considered “Qualified Dividends”

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Basic Asset Location Strategy

Stocks: Non-Retirement or Roth IRA

Bonds: Tax-Deferred (IRA, 401(k))

REITs: Tax-Deferred (IRA, 401(k))

Growth Assets: Roth IRA

Active Mutual Funds

Core Bonds

High-Yield Bonds

Actively Managed Funds

Place in Tax Advantaged Buckets

- Deferred – IRA, 401(k), Roth IRA
- Roth

Tax- Inefficient Assets

Example Scenario

- Client Portfolio: \$2 million
 - \$800,000 in Trust account
 - \$1,000,000 in 401(k)
 - \$200,000 in Roth IRA

Without Asset Location - \$2M

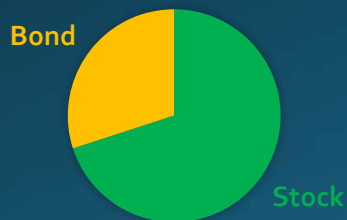
70% Equity / 30% Bonds

Individual – Taxable
\$800,000

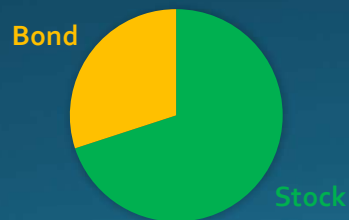
Tax Deferred
401(k) / IRA
\$1,000,000

Tax Free
Roth IRA
\$200,000

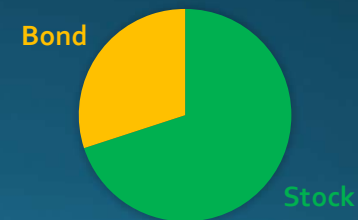
**SAME
ALLOCATION**



**SAME
ALLOCATION**



**SAME
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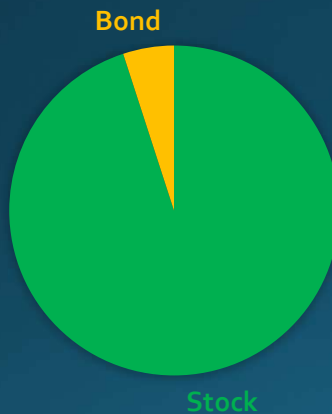


With Asset Location - \$2M

70% Equity / 30% Bonds

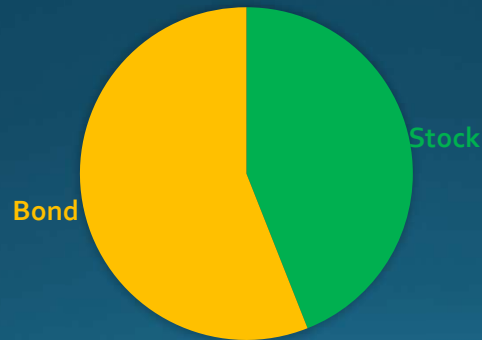
Non-Retirement

\$800,000



Tax Deferred
401(k) / IRA

\$1,000,000



Tax Free
Roth IRA

\$200,000



Long-Term Impact

- Compounded tax savings over 20+ years
- Could add 30 basis points (0.30%)
 - \$1M over 20 years earning 6% **\$3.2M**
 - \$1M with 30 basis points extra over 20 years **\$3.4M**
- More efficient than chasing higher returns alone

Additional Considerations

- Rebalancing may trigger taxes
- Watch out for withdrawal sequencing in retirement
- Asset location needs periodic review

Takeaways

- Review your accounts and investments
- Place assets in the correct bucket
- Work with a financial professional and tax professional
- Rebalance accounts with tax impact in mind

Questions?



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Sources

- (Padmawar, Jacobs 2022) Vanguard research “Revisiting the Conventional Wisdom Regarding Asset Location”
- <https://investor.vanguard.com/investor-resources-education/article/asset-location-can-lead-to-lower-taxes>
- (2013) Journal of Financial Planning “The Asset Location Decision
- <https://www.financialplanningassociation.org/article/journal/NOV13-asset-location-decision-revisited-o> Revisited”



OBBBA

One Big Beautiful Bill Act

PERMANENT TAX CUTS



- ▶ **Prior Law:** Lowered rates expired end of 2025.
- ▶ **OBBBA:** Lowered rates made permanent and all brackets continue to be indexed for inflation after 2025. Expands the 10% and 12% brackets with additional year of inflation adjustments.
- ▶ **Seven Brackets:** 10%, 12%, 22%, 24%, 32%, 35%, 37%
- ▶ **Planning Point:** With lower tax brackets made permanent, this may allow for opportunities to strategically manage income and consider strategies like Roth conversions while in the lower tax brackets.

PERMANENT TAX CUTS

- ▶ **Prior Law:** Increased standard deduction expired end of 2025 and personal exemptions suspended 2018-2025.
- ▶ **OBBBA:** Permanently increases the standard deduction and permanently terminates deduction for personal exemptions.
- ▶ **2025 Standard Deduction:**
 - ✓ Single & Married Filing Separate: \$15,750
 - ✓ Married Filing Jointly: \$31,500
 - ✓ Head of Household: \$23,625




PERMANENT TAX CUTS

- ▶ **Prior Law:** \$2,000 child tax credit reduced to \$1,000 after 2025. Non-refundable \$500 other dependent credit expired after 2025.
- ▶ **OBBBA:** Permanently increases the child tax credit to \$2,200 beginning in 2025 and indexes the credit for inflation, including the refundable portion. Makes \$500 other dependent credit permanent. Increased the income phaseout threshold amounts for child tax credit and other dependent credit.
- ▶ **2025 Phaseout Thresholds Begin:**
 - ✓ **Single & Head of Household:** \$200,000
 - ✓ **Married Filing Joint:** \$400,000



NO TAX ON TIPS

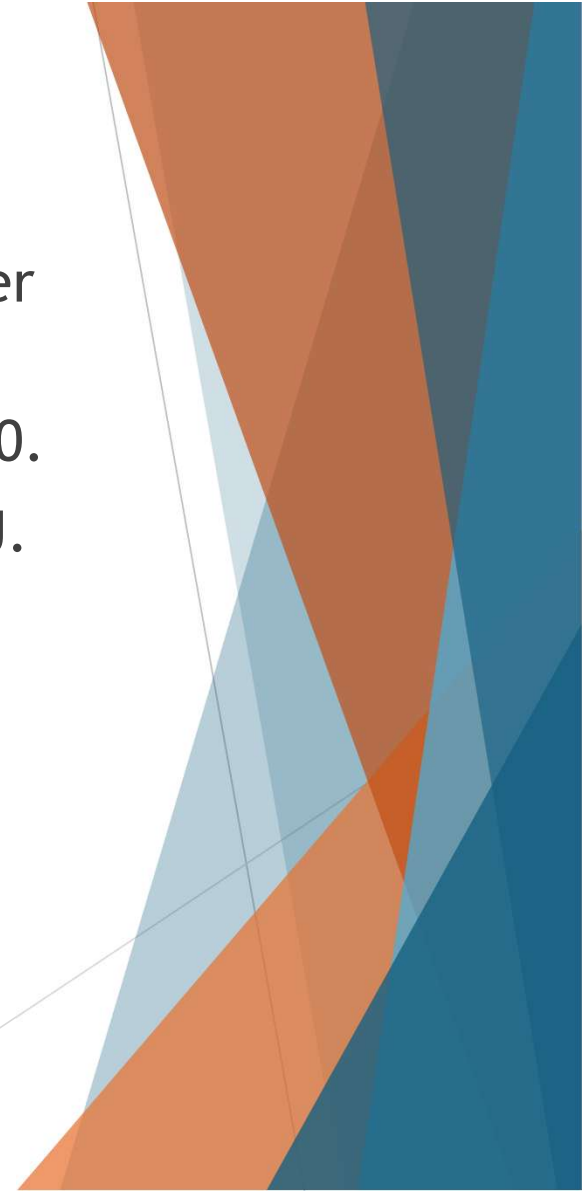
- ▶ Allows up to \$25,000 deduction for qualified tips in certain occupations.
 - ▶ List of occupations to be provided by October 2, 2025-employers will be required to provide occupation on forms (W-2 or 1099).
 - ▶ Qualified tips are voluntary cash or charged tips from customers or through tip sharing.
 - ▶ Must be reported on a Form W-2, Form 1099 or other specified statements furnished to the individual or reported on Form 4137.
 - ▶ Self employed individuals in a Specified Service Trade or Business do not qualify.
 - ▶ Deduction phases out for taxpayers with modified AGI of \$150K (single) or \$300K (MFJ).
 - ▶ Temporary (2025 - 2028).
- 

NO TAX ON OVERTIME

- ▶ Allows up to \$12,500 (single), \$25,000 (MFJ) deduction for qualified overtime compensation.
- ▶ Must be reported on a Form W-2, Form 1099 or other specified statements furnished to the individual.
- ▶ Employers will be required to file information returns with the IRS and provide statements to employees showing the amount of qualified overtime compensation paid during the year.
- ▶ Deduction phases out for taxpayers with modified adjusted gross income (MAGI) of \$150K (single) or \$300K (MFJ).
- ▶ Temporary (2025 - 2028).

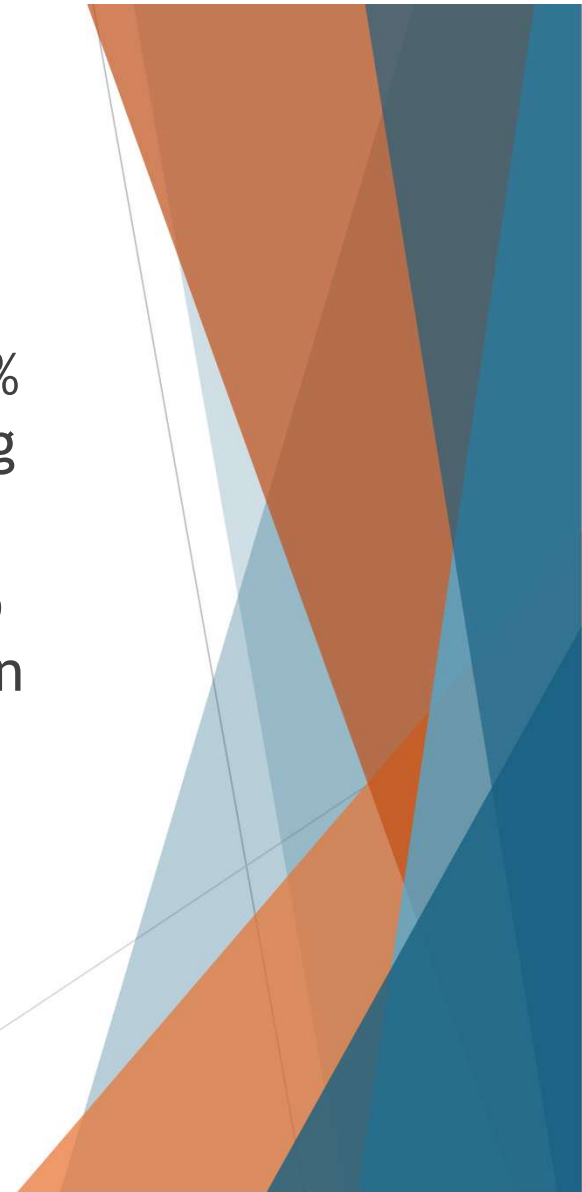
SENIOR DEDUCTION

- ▶ Provides an additional senior deduction of \$6,000 per eligible individual age 65 or older (by end of year).
- ▶ If both spouses are eligible, the deduction is \$12,000.
- ▶ Phases out when MAGI over \$75K (single)/\$150K MFJ.
- ▶ Temporary (2025 - 2028).



STATE & LOCAL TAX (SALT) DEDUCTION

- ▶ **Prior Law:** \$10K cap set to expire after 2025.
- ▶ **OBBBA:** Increases cap to \$40K for 2025. Increases 1% annually through 2029 and reverts to \$10K beginning 2030.
- ▶ **Phaseout:** Begins when MAGI exceeds \$500K in 2025 (also increases 1% annually through 2029). Deduction reduced by 30% of amount taxpayer's MAGI exceeds threshold, but never reduced below \$10K.



CAR LOAN INTEREST DEDUCTION



- ▶ **Prior Law:** No deduction for car loan interest (personal use).
- ▶ **OBBBA:** Creates a new "above-the-line" deduction (2025 - 2028).
- ▶ Maximum deduction is \$10,000 .
- ▶ Phases out when MAGI over \$100K (single) \$200K (joint).
- ▶ Vehicle must be for personal use; must be new & final assembly must be in United States (VIN must be reported).
- ▶ Loan must be secured by the vehicle (lenders must file information returns and furnish statements to taxpayers).

CHARITABLE CONTRIBUTIONS

- ▶ Creates deduction for non-itemizers:
 - ✓ Must be a cash contribution
 - ✓ \$1,000 Single; \$2,000 MFJ
- ▶ Makes 60% of AGI limit for cash contributions permanent.
- ▶ Further limits the charitable deduction for taxpayers who itemize - 0.5% of AGI reduction to otherwise deductible amounts.
- ▶ These provisions are effective starting in 2026.



TRUMP ACCOUNTS

- ▶ Establishes tax-deferred savings accounts for minors.
- ▶ Type of individual retirement account (IRA).
- ▶ Contributions to be made in calendar years prior to turning 18 years old.
- ▶ Contributions capped at \$5K per year but are NOT deductible.
- ▶ No contributions allowed until 12 months after the enactment of H.R. 1.
- ▶ Employers may make contributions which will NOT be includible in taxable compensation.
- ▶ Credit up to \$1,000 available when opening an account for a child born 2025-2028.
- ▶ Type of investment is restricted (mutual funds/ETFs).
- ▶ Distributions not allowed until age 18.

RELATED PROVISIONS

- ▶ Estate and Gift tax exemption increases to \$15M per person instead of reverting to \$5M after 2025, and will become permanent with inflation adjustments after 2026.
- ▶ Alternative Minimum Tax exemption is made permanent at higher levels indexed for inflation but steepens the phase-out for those with income exceeding \$626,350 single; \$1,252,700 joint.
- ▶ Makes a portion of the adoption credit refundable, up to \$5K and adjusted for inflation.
- ▶ Expands eligible 529 plan expenses, including professional credentials.