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CLARION PARTNERS
by Franklin Templeton

Maximizing After-Tax Returns:

Complementary strategies for tax-efficient investing

It's not just what you earn, it's what you keep

After-tax return

The investment return remaining after taxes are paid — the wealth the investor keeps.

Investment Return (Before taxes) – **Taxes Owed** (Paid to the IRS) = **After-Tax Return** (What you keep)

What you need to know

Capital-gains taxes generally arise when appreciated assets are sold; taxable dividends and distributions reduce current net return.

How can you put capital gains to work?

Direct indexing and **Qualified Opportunity Zones (QOZs)** can help preserve more through efficient tax management.

Direct indexing

- **Personalized index investing –** A portfolio of individual securities designed to track an index, rather than owning an index through a fund.
- **Potential for greater tax efficiency –** Direct ownership can provide greater customization and more opportunities for tax-loss harvesting.

QOZs

- **Tax-advantaged investment –** Reinvest capital gains into a fund that invests in real estate located in designated opportunity zones.
- **Potential for long-term tax benefits –** Tax deferral on capital gains, a 10% basis increase and exclusion of appreciation generated by the investment.

A complementary approach

1. Direct indexing puts the return-of-basis portion to work immediately, harvesting losses that can offset other gains in the portfolio.
2. Investing the capital gains into a QOZ investment defers tax payment on the capital gain for five years while direct indexing generates losses to harvest.
3. Harvested losses, combined with a 10% basis step-up after five years, can reduce the tax owed when the deferred gain is recognized.

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Direct Indexing: An investment approach that seeks to track an index by investing directly in some or all of the individual securities that comprise the index, rather than investing through a pooled investment vehicle such as a fund or ETF.

Qualified Opportunity Zones (QOZs): Designated economically distressed communities in the United States where certain investments may be eligible for tax benefits under U.S. federal law.

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