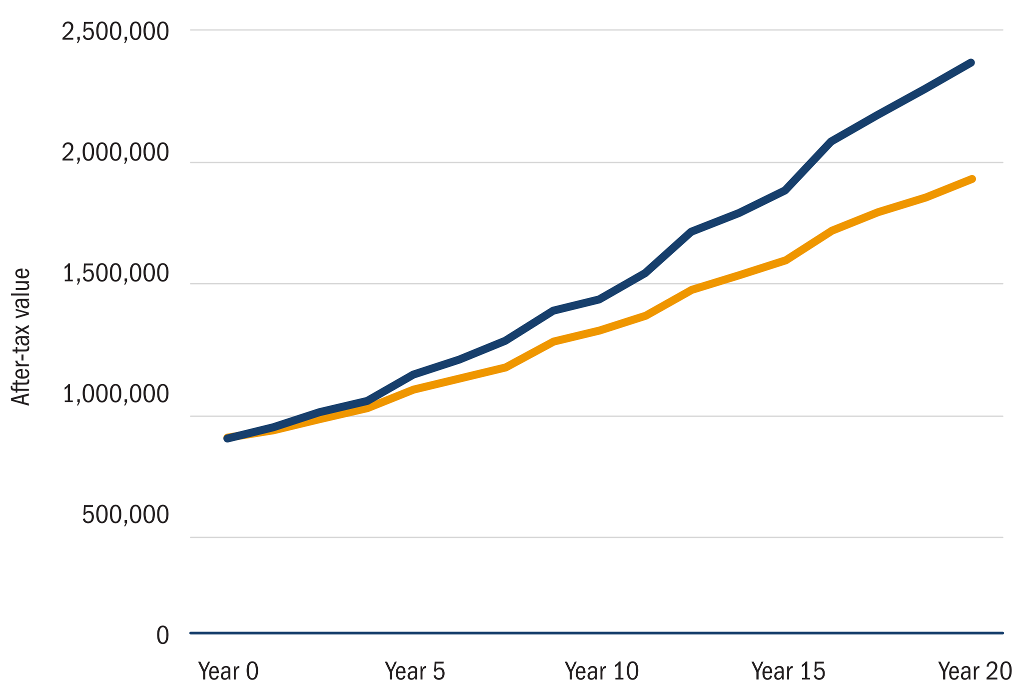
Chart on the Go

Latest Insights

Learn more on our blog »

Tax friction erodes wealth over time

Hypothetical $1 million investment that returns 5% annually before taxes



After-tax value in year 20:

Tax scenario #1
50 bps tax friction
$2,411,714

Tax scenario #2
150 bps tax friction
$1,989,789

Source: Columbia Threadneedle Investments.
This illustration is not reflective of the performance of any specific investment, nor is it reflective of any particular time frame.

Tax friction refers to the amount of annual return that is lost to taxes. Investors can seek to mitigate this wealth erosion through tax-aware investing, including:

- **Asset location.** Think about the type of account holding your assets. Investments with large potential tax footprints may be best held in qualified, tax-advantaged accounts (e.g., IRA).
- **Asset allocation.** Some asset classes are inherently more tax-efficient than others (e.g., municipal bonds, equity strategies with low turnover).
- **Investment vehicle.** Tax-friendly investment vehicles such as separately managed accounts (SMAs) and exchange-traded funds (ETFs) may offer clients greater control over their tax experience.

Consult with your financial advisor to identify the steps you can take today to help build your wealth in the years to come.

OML (03/24) CTNA6467128.1