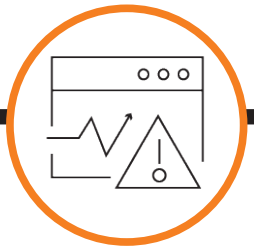
Tips to help transition to tax-managed investing

Russell Investments

Taxable clients

It doesn't take much income to generate a big tax bill.

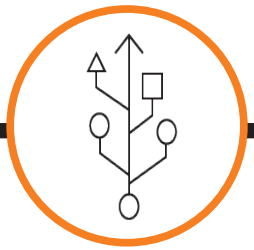


Minimal embedded gains?

Consider transitioning now. Rule of thumb: long time horizon is key.

Lots of embedded gains?

How much? Assess. It could be much less than you think. We can help analyze.

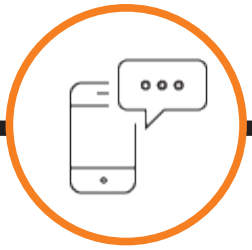


Receiving distributions like interest, dividends or capital gains?

Consider receiving as cash. Turn off auto-reinvest. Transition those dollars to a tax-managed solution.

Portfolio locked-up with high embedded gains?

Consider risk and opportunity cost. Tax avoidance is not an investment strategy. A modest tax bill may be worth the transition long term.



Want more information? We can help!

Contact Russell Investments at 800-787-7354 or visit russellinvestments.com.

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Tips to help transition your clients to tax-managed investing: For tax-sensitive clients

If your client is considering transitioning assets to a more tax-aware portfolio, this general guide, based on today's Federal tax rates, is designed to help you and your client minimize unexpected taxable impacts. Of course, these ideas may not be appropriate for every investor, but this can give you a sense of the type of considerations that might be beneficial. Depending on the client's cost basis, tax bracket and unique considerations, the below may need to be modified to fit their specific situation. Of course, this shouldn't be considered tax advice and you and your clients need to carefully assess each individual situation before proceeding, including consulting with a tax advisor.

SITUATION	IF SUITABLE FOR THE INVESTOR, CONSIDER THE FOLLOWING
Client without significant embedded capital gains.	Transition now. Note: If you have clients that have inherited investment assets, the cost basis of those assets may have benefited from a 'step-up in basis'. This means that the value of the asset(s) is determined to be the higher market value of the asset at the time of inheritance, not the value at which the original party purchased the asset.
Client recently took tax hit with capital gains distribution and reinvested that distribution.	If there is little or no gain in that reinvested distribution, liquidate it and transition that money to tax-managed investments.
Client expects to receive a capital gains distribution.	Set up the client's account(s) to pay gains out in cash. When the gains are paid out, invest those dollars in tax-managed investments. Each year, transition more assets over. It's important to note that if gains aren't reinvested, either in the original investment or in the new tax-managed investment, the investor will not benefit from the compounding that the reinvestment of these gains may offer.
Client with embedded gains.	Your client may incur capital gains tax if they sell their holdings, however, depending on the client's individual situation it may make sense to pay a little today to set your client up for the long term. Personal situations and tax brackets may change, of course. No one knows what their tax bracket will be in the future, but if an investor's tax bracket ends up being higher in the future, it may make sense to pay now. If the investor's tax bracket in the future might be lower, however, then it might not make sense to transition assets to tax-managed investing today. Use tax lots to your advantage. With accurate cost basis information on all of your client's purchases, you can aim to sell the highest cost positions first. Typically, it's best to sell any long-term positions first to benefit from preferential long-term capital gains rates at the federal level but, depending upon the tax lots, it sometimes makes sense to sell the newer position(s) for a lower capital gain. Transition proceeds to tax-managed investments.

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Income from funds managed for tax efficiency may be subject to an alternative minimum tax, and/or any applicable state and local taxes.

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