A TALE OF TWO INVESTORS

A REVIEW OF THEIR 1099 TAX FORMS

Russell Investments

Taking a closer look at your Form 1099-DIV can be eye-opening. Your financial professional or CPA can help you connect the dots between your December 31 investment statement and your April 15 tax bill. Form 1099-DIV is one of many IRS tax forms and is used to record investment-related income. This simple guide walks you through what to look for along with insights, implications, and actions you may want to take to improve the tax efficiency of your investments.

How much might the IRS take from Joe & Joan Traditional Taxpayer?

Their year-end investment statement stood at $1,000,000, BUT after paying taxes to the IRS, it went down to $983,204.

Taxes reduced their investment return by 1.7% and this assumes no active trading during the year.

Take a closer look at their 1099-DIV to see how this can happen.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

Mutual Fund Company

1a Total ordinary dividends $ 30,000	OMB No. 1545-0110 Form 1099-DIV (Rev. January 2022) For calendar year 20___	Dividends and Distributions
1b Qualified dividends $ 7,500		
2a Total capital gain distr. $ 24,500	2b Unrecap. Sec. 1250 gain $	Copy B For Recipient
2c Section 1202 gain $	2d Collectibles (28%) gain $	
2e Section 897 ordinary dividends $	2f Section 897 capital gain $	
3 Nondividend distributions $	4 Federal income tax withheld $	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
5 Section 199A dividends $	6 Investment expenses $	
7 Foreign tax paid $	8 Foreign country or U.S. possession	
9 Cash liquidation distributions $	10 Noncash liquidation distributions $	
12 Exempt-interest dividends $	13 Specified private activity bond interest dividends $	
14 State / 15 State identification no.	16 State tax withheld $ $	

PAYER'S TIN | RECIPIENT'S TIN

RECIPIENT'S name: Joe & Joan Traditional Taxpayer

Street address (including apt. no.)

City or town, state or province, country, and ZIP or foreign postal code

11 FATCA filing requirement ☐

Account number (see instructions)

Form 1099-DIV (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099DIV Department of the Treasury - Internal Revenue Service

Four boxes to review

Box 1a: Total Ordinary Dividends
- Includes qualified dividends
- Includes non-qualified dividends
- Includes net short-term capital gains distribution from mutual funds and/or real estate investment trusts (REITs)
- Includes taxable interest income from mutual funds (not just dividends)

Box 1b: Qualified Dividends
- Dividends paid by a U.S. company or qualifying foreign company
- Not all foreign dividends are qualified
- Generally, lower tax rate for qualified dividends

Box 1a – Box 1b = Non-Qualified Dividends
- Includes interest income
- Includes dividends from REITs
- Taxed as ordinary income and often a higher corresponding tax rate

Box 2a: Total Capital Gains Distribution
- Net long-term capital gains distribution from mutual funds or REITs

Joe & Joan Traditional Taxpayer

Marginal Tax Rate on Unearned Income: 40.8% (37% + 3.8% NIIT*)

Long-Term Capital Gain/Qualified Dividend Tax Rate: 23.8% (20% + 3.8% NIIT*)

Filing Status: Married filing jointly

Investments:†

- **Equity Mutual Fund**
  $500,000 Balance
  1.5% Dividend yield
  4.9% Capital gains distribution
- **Taxable Bond Mutual Fund**
  $500,000 Balance
  4.5% Interest income

Box 1a: Total Ordinary Dividends:

Dividend from mutual fund:	$7,500
Interest income from mutual fund:	$22,500
Total Ordinary Dividends:	$30,000

Box 1b: Qualified Dividends
$7,500 X 23.8% = **$1,785 in federal taxes (A)**

Box 1a – Box 1b =Non-Qualified Dividends**
$30,000 – $7,500 = $22,500
$22,500 X 40.8% = **$9,180 in federal taxes (B)**

Box 2a: Total Capital Gains Distribution
$24,500 X 23.8% = **$5,831 in federal taxes (C)**

Box 12: Exempt-Interest Dividends
Interest income from municipal bond funds. Generally, tax-free at the federal level. Joe & Joan had $0 in municipal bonds.

Summary of taxes

(A) Tax on dividends:	$1,785
(B) Tax on interest income:	$9,180
(C) Tax on capital gains:	$5,831
Total Federal Tax Due:	**$16,796**
Percent lost to taxes:	**-1.7%**

A hypothetical illustration. *Net Investment Income Tax.
**Any non-qualified dividends are taxed as ordinary income.
† Using 2023 average capital gains distribution % of Morningstar broad category 'US Equity' which includes mutual funds and ETFs. The dividend yield is represented by the yield on the S&P 500® Index and interest is based on the yield of the Bloomberg U.S. Aggregate Bond Index as of 12/31/2023.

How about a tax-managed investor such as Uncle Sam & Aunt Betsy?

Contrasting with Joe & Joan on the prior page, let's look at tax-aware investors in two distinct mutual funds; their $500,000 U.S. large cap fund has a full-year focus on tax-management and their $500,000 in fixed income is invested in a municipal bond fund. So, while Joe & Joan received the average taxable distribution from their investments, Uncle Sam & Aunt Betsy took advantage of an investment approach with a full-year focus on tax-management and their results were quite different:

Their year-end investment statement stood at $1,000,000 and after paying taxes to the IRS, it's only down to $999,167.

They lost just 0.1% of their investment return to the payment of taxes.

Take a closer look at their 1099-DIV to see how this can happen.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. **Mutual Fund Company**	1a Total ordinary dividends $ 3,500	OMB No. 1545-0110 Form **1099-DIV** (Rev. January 2022) For calendar year 20__	**Dividends and Distributions**
	1b Qualified dividends $ 3,500		
	2a Total capital gain distr. $ 0	2b Unrecap. Sec. 1250 gain $	**Copy B** **For Recipient**
PAYER'S TIN / RECIPIENT'S TIN	2c Section 1202 gain $	2d Collectibles (28%) gain $	
	2e Section 897 ordinary dividends $	2f Section 897 capital gain $	
RECIPIENT'S name **Uncle Sam & Aunt Betsy**	3 Nondividend distributions $	4 Federal income tax withheld $	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
	5 Section 199A dividends $	6 Investment expenses $	
Street address (including apt. no.)	7 Foreign tax paid $	8 Foreign country or U.S. possession	
City or town, state or province, country, and ZIP or foreign postal code	9 Cash liquidation distributions $	10 Noncash liquidation distributions $	
11 FATCA filing requirement ☐	12 Exempt-interest dividends $ 16,000	13 Specified private activity bond interest dividends $	
Account number (see instructions)	14 State / 15 State identification no.	16 State tax withheld $ $	

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A hypothetical illustration. *Net Investment Income Tax. **Any non-qualified dividends are taxed as ordinary income. ‡The dividend yield is represented by 50% of the yield on the S&P 500® Index and interest is based on the yield of the Bloomberg U.S. Municipal Bond Index as of 12/31/2023.

Uncle Sam & Aunt Betsy Tax-Aware Taxpayer

Marginal Tax Rate on Unearned Income: 40.8% (37% + 3.8% NIIT*)

Long-Term Capital Gain/Qualified Dividend Tax Rate: 23.8% (20% + 3.8% NIIT*)

Filing Status: Married filing jointly

Investments:‡

- **Tax-Managed Equity Mutual Fund**
  $500,000 Balance
  0.7% Dividend yield
  No capital gains distribution
- **Municipal Bond Mutual Fund**
  $500,000 Balance
  3.2% Interest income
  (generally tax-free at federal level)

Box 1a: Total Ordinary Dividends:

Dividend from mutual fund:	$3,500
Taxable int. income from mutual fund:	$0
Total Ordinary Dividends:	$3,500

Box 1b: Qualified Dividends
$3,500 X 23.8% = **$833 in federal taxes (A)**

Box 1a – Box 1b =Non-Qualified Dividends**
$3,500 - $3,500 = $0
$0 X 40.8% = **$0 in federal taxes (B)**

Box 2a: Total Capital Gains Distribution
$0 X 23.8% = **$0 in federal taxes (C)**

Box 12: Exempt-Interest Dividends
Interest income from municipal bond funds
Generally, tax-free at the federal level.
$16,000 X 0% = $0 in federal taxes

Summary of taxes

(A) Tax on dividends:	$833
(B) Tax on interest income:	$0
(C) Tax on capital gains:	$0
Total Federal Tax Due:	**$833**
Percent lost to taxes:	**-0.1%**

How low can you go?
A quick comparison of two hypothetical cases:

As you see here, two taxpayers with the same portfolio value can potentially end up with very different outcomes on an after-tax basis. Note that these two couples had same investment amount and materially different federal tax bills. Details matter as no one wants to pay more to the IRS than they have to. Remember, you DON'T need to be in the top tax bracket to feel the pinch from taxes.

	Joe & Joan Traditional Taxpayer	Uncle Sam & Aunt Betsy Tax-Aware Taxpayer
Year-end investment statement showed:	$1,000,000	$1,000,000
Federal tax due from:		
Dividends	$1,785	$833
Interest Income	$9,180	$ 0
Capital Gains	$5,831	$ 0
Total Federal Tax	**$16,796**	**$833**
After-tax value:	$983,204	$999,167
Percent of investments lost to taxes:	**-1.7%**	**-0.1%**

Between a Rock and Hard Place?
Here are some ideas on changes to consider:

CAPITAL GAINS DISTRIBUTIONS (BOX 2A)

Q: Are these distributions high for your investment amount? Are the capital gains being reinvested?

A: If these distributions are being reinvested, look into turning off that reinvestment, and migrate that cash into a tax-managed approach that may work to minimize capital gains.

DIVIDENDS (BOX 1A/1B)

Q: Is there a need for the dividend income? Are the dividends being reinvested?

A: If these dividends are being reinvested, look into turning off that reinvestment, and migrate that cash into a tax-managed approach that may work to balance dividends with capital appreciation.

INTEREST INCOME (BOX 1A)

Q: Is there a need for this current income? Is interest income being reinvested?

A: Consider municipal bonds for tax-free income or a lower tax bill.

TRANSITION PLAN

Q: Do you have a similarly frustrating tax bill year after year after year? When was the last time you rebalanced your portfolio? Are you letting the potential tax bill influence your decision-making?

A: It may make sense to transition all (or part) of the portfolio to a more tax-managed approach. Understand the tax impact of a transition, if any, and what the payback period might be. Russell Investments can work with your financial advisor to help analyze potential taxes and the payback period for portfolio transitions.

REALLOCATIONS, TACTICAL TRADING AND FUND REPLACEMENTS

Q: Does the portfolio trade frequently due to reallocations, tactical adjustments or fund replacements?

A: Frequent trading within a taxable portfolio can result in unnecessary taxes when positions with unrealized gains are constantly and/or systematically sold. When making changes to a taxable portfolio always be sure to consider the tax consequences. Smaller and less frequent allocation changes may be better for tax-sensitive investors so that benefits from portfolio improvements are not outweighed by tax costs.

> "WHEN YOU FIND YOURSELF IN A HOLE, THE FIRST THING TO DO IS STOP DIGGING."
>
> —WILL ROGERS

2024 Federal Income Tax Brackets (Short-term capital gains are taxed as ordinary income.)

Tax Rate	Married Filing Jointly	Single	Married Filing Separately	Head of Household
10%	$0 – $23,200	$0 – $11,600	$0 – $11,600	$0 – $16,550
12%	$23,201 – $94,300	$11,601 – $47,150	$11,601 – $47,150	$16,551 – $63,100
22%	$94,301 – $201,050	$47,151 – $100,525	$47,151 – $100,525	$63,101 – $100,500
24%	$201,051 – $383,900	$100,526 – $191,950	$100,526 – $191,950	$100,501 – $191,950
32%	$383,901 – $487,450	$191,951 – $243,725	$191,951 – $243,725	$191,951 – $243,700
35%	$487,451 – $731,200	$243,726 – $609,350	$243,726 – $365,600	$243,701 – $609,350
37%	Over $731,200	Over $609,350	Over $365,600	Over $609,350

2024 Long-Term Capital Gain/Qualified Dividend Tax Rates

Tax Rate	Married Filing Jointly	Single	Married Filing Separately	Head of Household
0%	$0 – $94,050	$0 – $47,025	$0 – $47,025	$0 – $63,000
15%	$94,051 – $583, 750	$47,026 – $518,900	$47,026 – $291,850	$63,001 – $551,350
20%	Over $583,750	Over $518,900	Over $291,850	Over $551,350

2024 Standard Deduction[1], NIIT[2] Threshold, Capital Loss Limit[3]

	Married Filing Jointly	Single	Married Filing Separately	Head of Household
Standard Deduction	$29,200	$14,600	$14,600	$21,900
3.8% NIIT Thresholds	$250,000	$200,000	$125,000	$200,000
Capital Loss Limit	$3,000	$3,000	$1,500	$3,000

Source: Internal Revenue Service
[1] Blind, or age 65 or older: +$1,500 (Married); +$1,950 (Single or Head of Household).
[2] Net investment income tax.
[3] Maximum capital loss that can be deducted in a tax year, if your capital losses exceed your capital gains.

Talk to your financial professional and/or tax accountant to see what steps can be taken to potentially minimize your tax burden.

Or visit russellinvestments.com to discover the potential benefits of tax-managed investing.

The S&P 500® Index: A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

Bloomberg U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Bloomberg Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

Bloomberg U.S. Municipal Bond Index: Covers the USD-denominated long term tax-exempt bond market.

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