

5 TAX TRAPS TO NAVIGATE IN 2025



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STAY AHEAD OF THE GAME: IDENTIFYING CRUCIAL TAX TRAPS

Navigating today's complex financial landscape demands that tax-sensitive investors remain vigilant against potential traps that could significantly impact their after-tax returns. Staying informed and proactive will help you manage your tax burden more effectively and protect your wealth. In this guide, we outline **5 TAX TRAPS** that deserve your attention now.

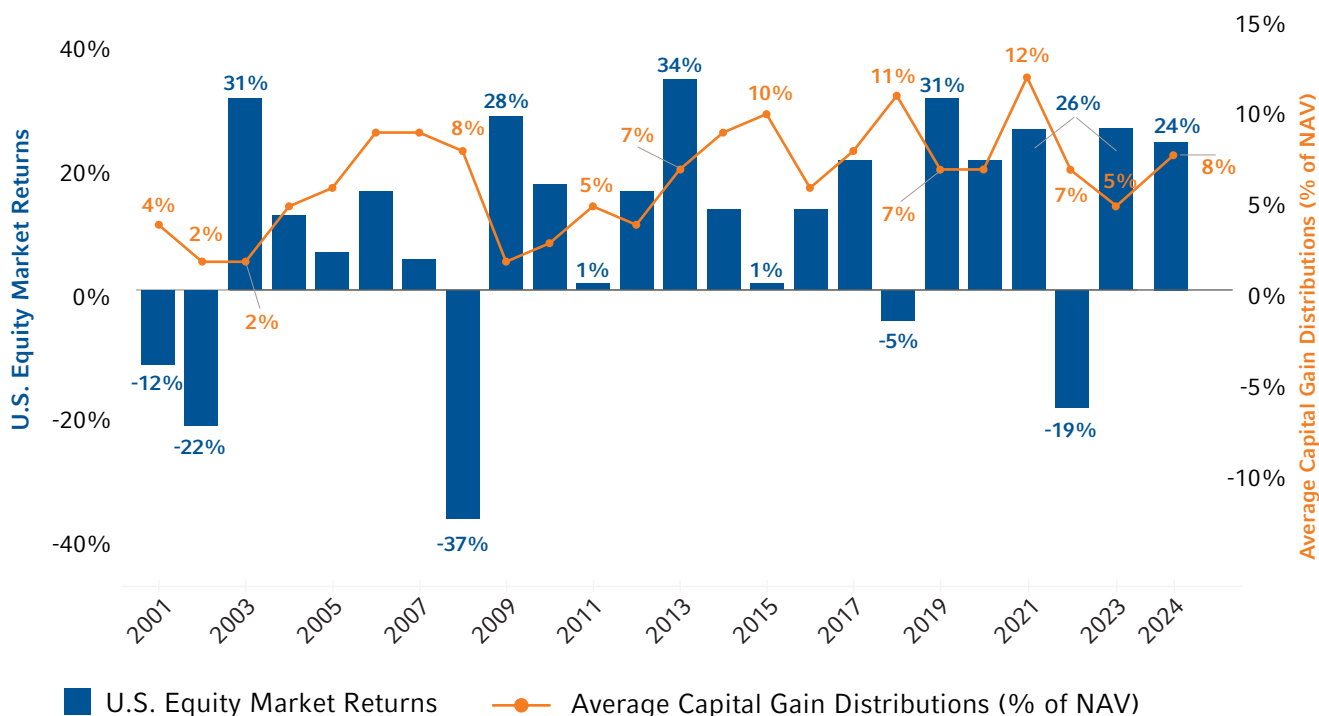
1 CAPITAL GAIN DISTRIBUTIONS: NAVIGATING THEIR IMPACT IN ANY MARKET ENVIRONMENT

Each year, mutual funds calculate their realized gains and losses for the fiscal year (typically November 1–October 31). If the gains exceed the losses, the net amount is distributed to investors as a capital gain. For taxable investors, it's important to consider the tax implications of these distributions.

The chart below illustrates the average mutual fund distribution¹ as a percentage of a fund's Net Asset Value (NAV), compared to U.S. stock market returns since 2001. Notably, the average capital gain distribution has never been 0%. In fact, some of the largest distributions occurred in years with flat or negative market returns (e.g., 2008, 2015, and 2018). **Regardless of market performance, the impact of capital gains taxes remain a significant consideration.**

Reviewing potential capital gain distributions in your current investments can help you determine if transitioning to tax-managed investing is appropriate for your financial strategy.

U.S. Equity Market Returns & Capital Gain Distributions / 2001–2024



Source: Morningstar Direct. U.S. stock market represented by Russell 3000® Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.
¹ Average capital gain distributions: Morningstar broad category 'U.S. Equity' which includes mutual funds and ETFs (and multiple share classes). For years 2001 through 2020 % = calendar year cap gain distribution ÷ year-end NAV, 2021 through 2024 % = total cap gain distribution ÷ respective pre-distribution NAV. For years 2001 through 2013, used oldest share class. 2014 forward includes all share classes.

2 TAX-LOSS HARVESTING: A YEAR-ROUND OPPORTUNITY

Each year, market pullbacks create opportunities for tax-loss harvesting. While investors often focus on tax-loss harvesting at year-end, historical market data spanning 75 years indicate that November and December are among the three best-performing months of all. That makes them less attractive for harvesting losses.

It's crucial to actively manage taxes throughout the year to help reduce any potential tax burden when market volatility emerges. In addition to tax-loss harvesting, consider other strategies that can be implemented at various points throughout the year to maximize after-tax returns.

Don't limit tax management to a basic year-end activity. Explore timely tax strategies throughout the year for potentially better financial outcomes.

U.S. Equity: Months With UP and DOWN Markets / 1950–2024

	# OF UP YEARS	# OF DOWN YEARS	AVG. MONTHLY RETURN (S&P 500)
January	45	30	1.13%
February	41	34	0.10%
March	51	24	1.21%
April	53	22	1.52%
May	46	29	0.42%
June	43	32	0.24%
July	45	30	1.34%
August	43	32	0.13%
September	35	40	-0.60%
October	44	31	0.95%
November	53	22	2.00%
December	56	19	1.51%

Best 3 UP market months

Worst 3 DOWN market months

Source: FactSet, Morningstar Direct. As of 12/31/2024. U.S. Equity: S&P 500® Index. For months from January 1950 through January 1988, used price returns. February 1988 forward, used total returns. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

3 CASH ON THE SIDELINES: WATCH OUT FOR THE TAX BITE ON INTEREST INCOME

While Certificates of Deposit (CDs) and Money Market Funds may seem compellingly attractive with their high yields, it's important to examine their real return after inflation and the impact of taxes. CDs are subject to ordinary income tax rates, which can reach as high as 40.8%* when federal income taxes are included. A better after-tax option could be municipal bond funds which offer a tax advantage with a 0% federal tax rate**, allowing you to retain more of your earnings.

Furthermore, you should consider the potential impact of inflation on the purchasing power of your investment returns. It's essential to look beyond surface-level returns and evaluate the broader financial picture. This approach ensures you make the most informed and tax-efficient investment decisions.

What is the Real Return of a 4% CD?

ASSUMPTIONS

- 4% CD Rate
- Top Federal Income Tax Rate*
- 2% Inflation

0.37%

-1.63%

ASSUMPTIONS

- 4% CD Rate
- Top Federal Income Tax Rate*
- 4% Inflation



CDs offer a fixed rate of return, and the interest and principal on CDs will generally be insured by the FDIC up to \$250,000. Municipal bond fund investing is subject to the risks associated with debt securities including, but not limited to, credit, liquidity and interest rate risks. It may be adversely impacted by economic conditions, market fluctuation, and regulatory changes.

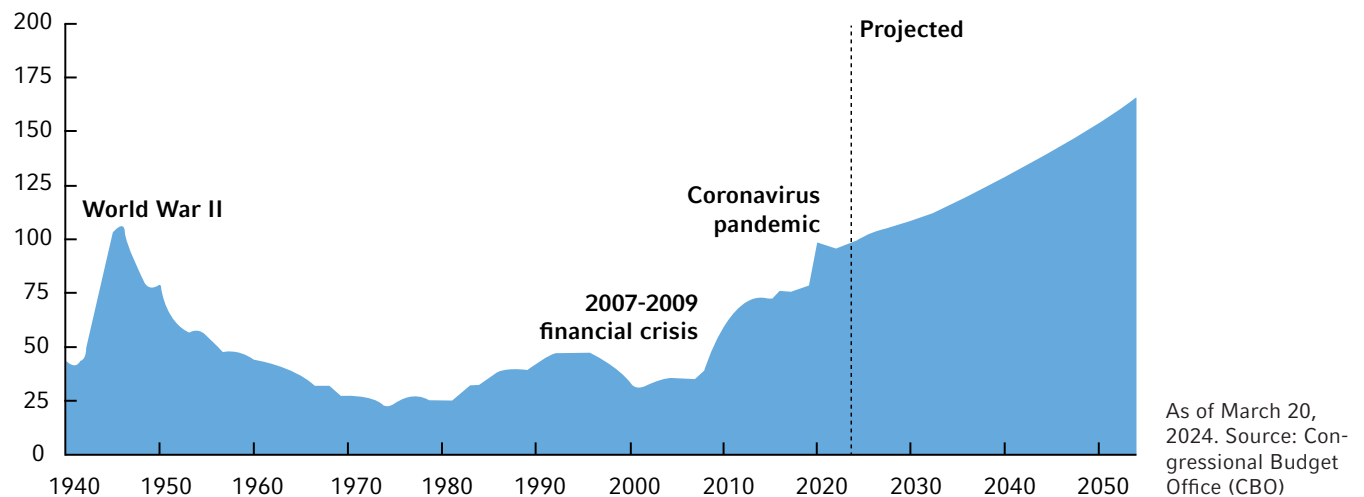
* Based on maximum tax rate of 40.8% for Married Filing Jointly, including 3.8% Net Investment Income Tax.

** Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax.

4 POTENTIAL TAX INCREASES ON THE HORIZON: THE SPECTER OF RISING FEDERAL DEBT

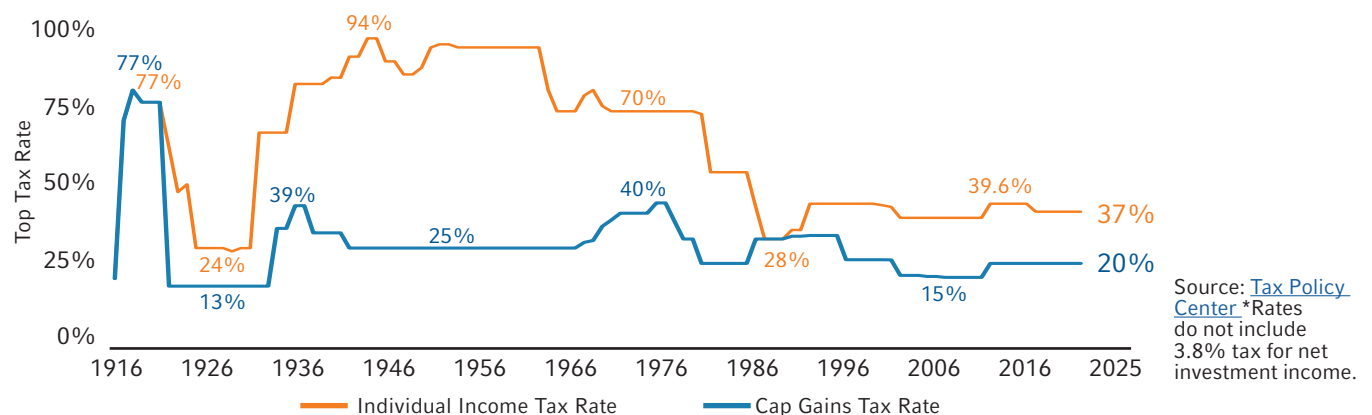
U.S. public debt surpassed \$35 trillion in July 2024. By 2029, the government's debt climbs to 107% of GDP, exceeding the historical peak it reached immediately after World War II. The Congressional Budget Office predicts this debt will continue to increase every year for the next 30 years. In 2054, it reaches 166% of GDP and will likely continue increasing over time. To address this growing debt burden, the government will most likely need to raise taxes in the future.

Federal Debt Held by the Public / 1940–2054
Percentage of GDP








As we look ahead, understanding the historical trends in tax rates is essential. This chart showcases the top income and capital gains tax rates from 1916 to 2025, highlighting significant shifts over time. With potential tax changes on the horizon, it's important to consider how these shifts could impact investment portfolios, regardless of past perceptions.

Top Tax Rates* for Income and Capital Gains / 1916–2025



5 TAX CUTS AND JOBS ACT (TCJA): ONLY TWO TAX FILINGS LEFT BEFORE IT SUNSETS

As the potential sunset of the Tax Cuts and Jobs Act (TCJA) nears at the end of 2025, it's crucial for investors to prepare for any changes in tax policy. Most of the TCJA's individual tax provisions, including the reduction in income tax rates, are set to expire after this year. Without Congressional intervention, this could result in higher taxes, reducing your after-tax disposable income and increasing the burden on your investment gains and income. Be sure to consider the long-term implications of these potential changes when making your financial decisions.

PROVISION	CURRENT LAW	AFTER EXPIRATION	IMPACT
INCOME TAX RATES	7 brackets: 10%, 12%, 22%, 24%, 32%, 35% and 37%; several tax bracket income levels expanded in 2017	7 brackets: 10%, 15%, 25%, 28%, 33%, 35% and 39.6%; income brackets revert to lower 2017 levels (adjusted for inflation)	
LONG-TERM CAPITAL GAINS AND QUALIFIED DIVIDENDS	0%, 15% and 20% Tax Rates	0%, 15%, and 20% Tax Rates	
STANDARD DEDUCTION	\$15,000 for Single, \$30,000 for Married Filing Jointly (MFJ)	\$6,350 for Single, \$12,700 for MFJ (plus adjustment for inflation)	
STATE AND LOCAL INCOME TAX DEDUCTION – REAL ESTATE, PERSONAL PROPERTY AND STATE INCOME TAX	\$10,000 Maximum Cap for taxpayers	Cap removed	
MORTGAGE INTEREST DEDUCTION	Limited to \$750,000 of "acquisition" debt	Limited to \$1M of "acquisition" debt plus \$100k in home equity debt	
CHILD TAX CREDIT	\$2000 per child, \$500 for other dependents; phaseout at \$200k/\$400k single/MFJ	\$1000 per child under 17; phaseout at \$75k/\$110k single/MFJ (plus adjustment for inflation)	
ESTATE TAX	\$13.99M exemption; inflation indexed	\$5M (plus adjustment for inflation)	
NIIT – NET INVESTMENT INCOME TAX	Retained; 3.8% surtax on most non-compensation income	No change	

Source: Russell Investments

RUSSELL INVESTMENTS: ACTIVE IN THE TAX-AWARE SPACE SINCE 1985

Russell Investments actively manages taxes within each of our tax-managed and tax-exempt funds. Our trading desk is ready 24 hours a day to systematically implement tax-loss harvesting strategies whenever the opportunity presents itself. With a full-year focus on managing taxes, our funds have successfully minimized their tax impact by achieving little to no taxable distributions.

Russell Investment Company Tax-Managed and Tax-Exempt Funds Annual Capital Gain Distributions (% of NAV)

FUND – CLASS S	INCEPTION DATE	2019	2020	2021	2022	2023	2024
Tax-Managed U.S. Large Cap Fund (RETSX)	Oct 1996	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Managed U.S. Mid & Small Cap Fund (RTSSX)	Nov 1999	0.00%	0.00%	0.11%	0.00%	0.00%	0.00%
Tax-Managed International Equity Fund (RTNSX)	Jun 2015	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Managed Real Assets Fund (RTXSX)	Jun 2019	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Exempt Bond Fund (RLVSX)	Sep 1985	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Exempt High Yield Bond Fund (RTHSX)	Jun 2015	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

■ 0% of NAV ■ Any distribution less than 1% of NAV

Capital gain distributions from mutual funds are subject to federal, state and local taxes and alternative minimum tax. Historical data shown is not an indicator of future results. Investors should consult with their financial and tax professionals before investing.

HOW TO TAKE ACTION TODAY

BEING TAX-SMART IS A YEAR-LONG ENDEAVOR.

Current markets conditions may be challenging for investors, but they also present attractive opportunities to actively manage taxes in a portfolio. Volatility allows for tax-loss harvesting, which creates tax “assets” that can be used to offset future capital gains taxes.

Here’s how you and your financial professional can assess your current situation and evaluate whether you may benefit from a tax-managed approach in your investment portfolio.

- Create a list of all of your mutual fund investments, the Net Asset Value (NAV) when you purchased them, and the current NAV.
- Calculate the unrealized gains/losses, then sort the list by unrealized gains/losses.
- Review investments that may be suitable for transition, in particular:
 - Investments with losses represent an opportunity to create a tax asset in your portfolio to offset against other gains.
 - Investments with close to zero unrealized gains/losses.

Talk to your financial professional and/or tax accountant. They can provide personalized guidance and help you determine the most suitable course of action.

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

IMPORTANT INFORMATION AND DISCLOSURES

Fund objectives, risks, charges and expenses should be carefully considered before investing. A summary prospectus, if available, or a prospectus containing this and other important information can be obtained by calling (800) 787-7354 or visiting russellinvestments.com. Please read a prospectus carefully before investing

IMPORTANT RISK DISCLOSURES

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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Small capitalization (small cap) investments generally involve stocks of companies with a market capitalization based on the Russell 2000® Index. Investments in small cap, micro cap, and companies with capitalization smaller than the Russell 2000 Index are subject to the risks of common stocks, including the risks of investing in securities of large and medium capitalization companies. Investments in smaller capitalization companies may involve greater risks as, generally, the smaller the company size, the greater these risks. In addition, micro capitalization companies and companies with capitalization smaller than the Russell 2000 Index may be newly formed with more limited track records and less publicly available information.

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Investments in infrastructure-related companies have greater exposure to the potential adverse economic, regulatory, political and other changes affecting such entities. Investment in infrastructure related companies are subject to various risks including governmental regulations,

high interest costs associated with capital construction programs, costs associated with compliance and changes in environmental regulation, economic slowdown and surplus capacity, competition from other providers of services and other factors.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

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

Bond investors should carefully consider risks such as interest rate, credit, default and duration risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high-yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to subprime mortgages. Generally, when interest rates rise, prices of fixed-income securities fall.

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