

## **OPTIMIZING RETURNS WITH TAX-EFFICIENT INVESTING**

Getting maximum returns on your investments require more than diversifying and balancing your investment portfolio. The ability to understand the tax implications on your investments is also crucial towards maximizing on your returns.

Tax-efficient investing is a strategic approach that aims to maximize after-tax returns by reducing the impact of taxes on investment earnings. The following are strategies you can use to enhance to returns on your investments through tax-efficient investing.

### **Asset location**

This is a strategy that involves taking advantage of different tax treatments across different investments. This strategy determines the proper account in which to place investments for the most favourable overall tax treatment. Using this strategy, you are able to choose which investment assets should be held in a tax-deferred account meaning that you do not pay tax until you withdraw your funds or which investments to place in taxable accounts to maximize after-tax returns.

### **Investment diversification**

Diversifying your investments across various investment asset classes helps to spread risk while also enhancing tax efficiency. Investing in different asset classes instead of only one can enhance returns while also minimizing tax liabilities. This is because some investments are more tax-efficient than others and trigger fewer capital gains like infrastructure bonds which are exempted from withholding tax.

### **Consideration of tax-efficient investments**

Some investment vehicles such as Exchange-Traded Funds (ETFs) and mutual funds are inherently tax-efficient. You should also be on the lookout for various bonds in the market that are issued by the government like the Euro bond which is normally tax-free.

### **Tax-loss harvesting**

This is a strategy that allows you to trade investments that are accruing losses to offset capital gains on other investments. These investments can be any asset from stocks, shares, bonds etc. This strategy stipulates that you must sell an asset at a loss which is then used to offset the capital gains.

### **Knowledge of tax implications on investments**

Understanding the tax implications of the different investment assets is also important. This knowledge will help you invest in assets that are more tax-efficient and can maximize your returns. For example, EFTS or mutual funds may not have impressive yields like equities but they carry lower tax implications. Such information will help you gauge which investments to make in relation to your risk exposure.

Investing and trading can be fantastic ways to increase your wealth, but it is crucial to understand the tax ramifications. You can reduce your tax cost while increasing your returns by carefully considering your investment assets, taking advantage of tax-advantaged investments and acquiring knowledge on the tax implications on different investments.