

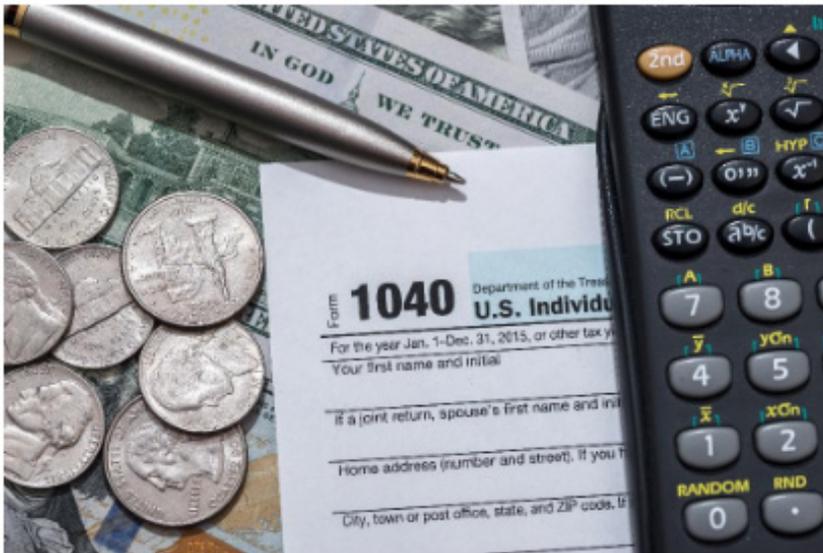
Quelling April Aftershocks, Tax Efficient Investing For Gen X



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I help people on their path to Financial Freedom. [FULL BIO](#) ✓

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Do April showers bring May flowers or does the April tax filing date bring us face-to-face with our non-flowery tax realities? According to Bloomberg, the average federal income tax rate in 2015 was over 10 percent, but for a family earning over \$100,000 that rate can quickly climb. After adding the average 9.5 percent paid for Medicare and Social Security taxes as well as any state income taxes, the tax paid a family earning over \$100,000 felt this tax season was far greater than Bloomberg's average. Paying Uncle Sam a big chunk of earnings in April leaves Generation X (mid-30's to mid-50's) with more questions than blooms in May, making this month the perfect time to discuss tax efficient investing.

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As we start to accumulate wealth, our financial lives become more complex. We find ourselves with assets in different locations – from 401(k)s, IRAs, and annuities to brokerage and savings accounts – all of which may have varying tax implications. With all these assets, accounts and investment vehicles, tax efficient investing can seem like a daunting task, but, at the end of the day, a smart strategy can come down to three words: location, location, location.

Why Consider Your Assets' Location?

This past February I wrote about our rising tax burden. The middle class and even some who are considered affluent are faced with many financial challenges – a tough job market, stagnant wages, lack of savings, and the rising cost of health care (from both higher premiums and higher deductibles). With Federal debt at an all-time high, and state capitals needing to balance their budgets, the middle class and affluent will likely be asked to pay more. Whether it is in the form of higher federal and state income taxes, property taxes, sales taxes or higher fees and use taxes, or the elimination of deductions and loopholes, lawmakers can get creative when they need to raise money. And despite what some politicians say, our current economic climate is showing few signs of a lower tax environment. In fact, some very popular politicians are openly calling for an increase in taxes. More than ever before, today's middle class needs to be aware of this rising tax burden and take steps to reduce its impact now and in the future.

Asset Location for Tax Efficiency

This may surprise some, but the general concept of asset location is straightforward. You want to place your investments with the highest taxable income in accounts that provide tax advantages such as tax deferral, and conversely, place your more tax-efficient investments inside taxable accounts. For example, municipal bonds and long-term stock holdings can be placed in your taxable (brokerage) accounts, and taxable bonds, multi-asset funds, real estate, actively traded mutual funds and any high-income fund, might be better placed inside your tax-deferred accounts such as IRAs, 401(k)s, Roth IRA's etc.

Though the basic concept of asset location is simple to grasp, there are many considerations that make these movements complex. So before making any changes to your asset location, you must consider your time horizon for each investment, the impact any reallocation has on your liquidity, tax implications, transaction costs, and a variety of other factors before making these changes. You also want to make sure you wind up with your desired overall asset allocation. Therefore, it might make sense to get some assistance from a seasoned financial advisor, and for tax matters, it's always a good idea to check in with your CPA. Once you reallocate and benefit from a smart asset location plan, you may get your assets working more tax efficiently and the blooms on your portfolio should last even longer!

Contributor's Bio

Mark Avallone is the author of *Countdown To Financial Freedom*, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the *Wall Street Journal* as well as in *Forbes* where he is a regular contributor. He has appeared on *CNBC* and has been a repeat guest on the *Fox Business Network*. His insights have also appeared in *USA Today*, *U.S. News & World Report*, *The Washington Post*, and other leading publications.