



Smart tax strategies for investors to consider

Timely conversations for tax awareness,
mitigation and efficiency

2025 edition

“For all long-term investors, there is only one objective: maximum total real return after taxes.”

–Sir John Templeton



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Smart tax strategies for investors

Taxes are always a factor in investing and wealth planning, but the first half of 2025 was an unusually eventful period. Months of uncertainty over the fate of temporary tax cuts from the Tax Cuts and Jobs Act of 2017 (TCJA) gave way to the early July passage of President Trump's One Big Beautiful Bill Act (OBBBA), which makes a number of the TCJA tax cuts permanent and includes additional tax changes.

Putting the headlines aside, the landmark tax and spending bill provides investors a good opportunity to take a step back and revisit their overall tax strategy – not just how their strategy might change in light of the new tax cuts, but the basics of tax-aware investing and wealth planning.

In this guide, we offer ideas designed to help you plan for the long term without overreacting to changes in policy. We'll discuss the sweeping new federal tax changes and we'll share insight on time-tested tax opportunities, such as tax-aware wealth planning, smart gifting strategies and tax-efficient investing.

When applied to investing, retirement, wealth planning and wealth transfer, tax strategy can quickly become an overwhelming topic. To keep things simple, this guide covers three broad categories:

- 1 Easy tax mitigation opportunities**
- 2 A tax-aware approach to growing your assets**
- 3 Strategies to reduce estate taxes**

1 | Covering the basics: Consider these easy tax mitigation opportunities

When sweeping tax changes make the headlines, it's natural, and even helpful to speculate on what those changes might mean to you. But don't make the mistake of letting short-term opportunities lead you into actions that compromise your long-term plan.

Focus on your long-term objectives. Start with the following tax-smart strategies that can help you build and preserve your wealth.

Max out annual retirement contributions

The tax code offers very few "freebies," but tax-advantaged retirement savings accounts are among them. There are multiple benefits to saving and investing in these accounts, designed to encourage long-term savings. For example, maximizing your pre-tax contributions to defined contribution plans (e.g. 401(k) and 403(b) plans) and traditional individual retirement accounts (IRAs) can help reduce your current taxable income. These contributions grow tax free but are taxable upon distribution. Keep in mind that in some cases, your contributions won't lower your current taxable income. For example, making Roth (after-tax) contributions to a defined contribution plan or a Roth IRA doesn't reduce your taxable income because the contributions have already been taxed, but that money will grow tax-free and qualified distributions are tax-free. Today's contributions can help create tax-deferred or tax-free investment growth for the future. And that growth has the potential to help you preserve more wealth for retirement and provide greater flexibility in managing future tax liabilities.

Retirement plan contribution limits for 2025

Defined contribution plans	2025
Maximum elective deferral: Pretax 401(k), 403(b), Roth 401(k)	\$23,500
Catch-up contributions for 401(k) and 403(b) (for ages 50 to 59 and age 64 or older)"	\$7,500
"Super catch-up" contribution for 401(k) (ages 60-63)	\$3,750
Maximum annual compensation considered	\$350,000

Sources: Capital Group, IRS.



Leverage the "super catch-up" rule

Beginning in 2025, there are new "catch-up" guidelines for contributions to defined contribution plans. There's now a "super catch-up rule" for those between 60 and 63 years of age that allows additional contributions. That means that after you've contributed \$23,500 to a 401(k), you can contribute an additional \$7,500 (the "catch-up" contribution) and then another \$3,750 (the "super catch-up" amount).



Take advantage of giving opportunities

Much of wealth and tax planning involves giving away assets in tax-efficient and effective ways. Remember, there are two basic types of giving that mitigate tax exposure: annual giving to charities that reduces income taxes and giving from an estate that can reduce estate taxes.

Don't assume estate giving is only relevant to those individuals with ultra-high net worth. If you have inclinations to give, there are strategies to help you do it in a tax smart way.

Another important reminder: don't make the mistake of believing any and all charitable donations are deductible. To make sure your donations are deductible, ask yourself two key questions:

Are you "itemizing" deductions in your tax return? To deduct charitable gifts, you'll need to be itemizing deductions in order to see income tax benefits. In recent years, the standard income tax deduction has increased, making fewer taxpayers eligible for so-called itemized deductions.

Are you donating to a "qualified" organization? The organization you are giving to must be qualified by the IRS in order for your donations to be deductible. Qualified organizations include nonprofit groups that operate exclusively for religious, charitable, educational, literary or scientific purposes, or certain other causes as defined by the IRS. To determine whether an organization qualifies, you can check the IRS website: [irs.gov/teos](https://www.irs.gov/teos).

Charitable contributions don't translate into dollar-for-dollar savings on your income tax bill. First, charitable contributions are what's known as "below the line" deductions, meaning that your tax rate is determined before the deduction is applied. Second, the IRS limits the amount you can deduct in a single tax year. This limit generally ranges between 20% and 60% of adjusted gross income (AGI). The following three factors determine the amount you can deduct in a single year:

- Your adjusted gross income (AGI)
- The type of property given
- The recipient of the gift

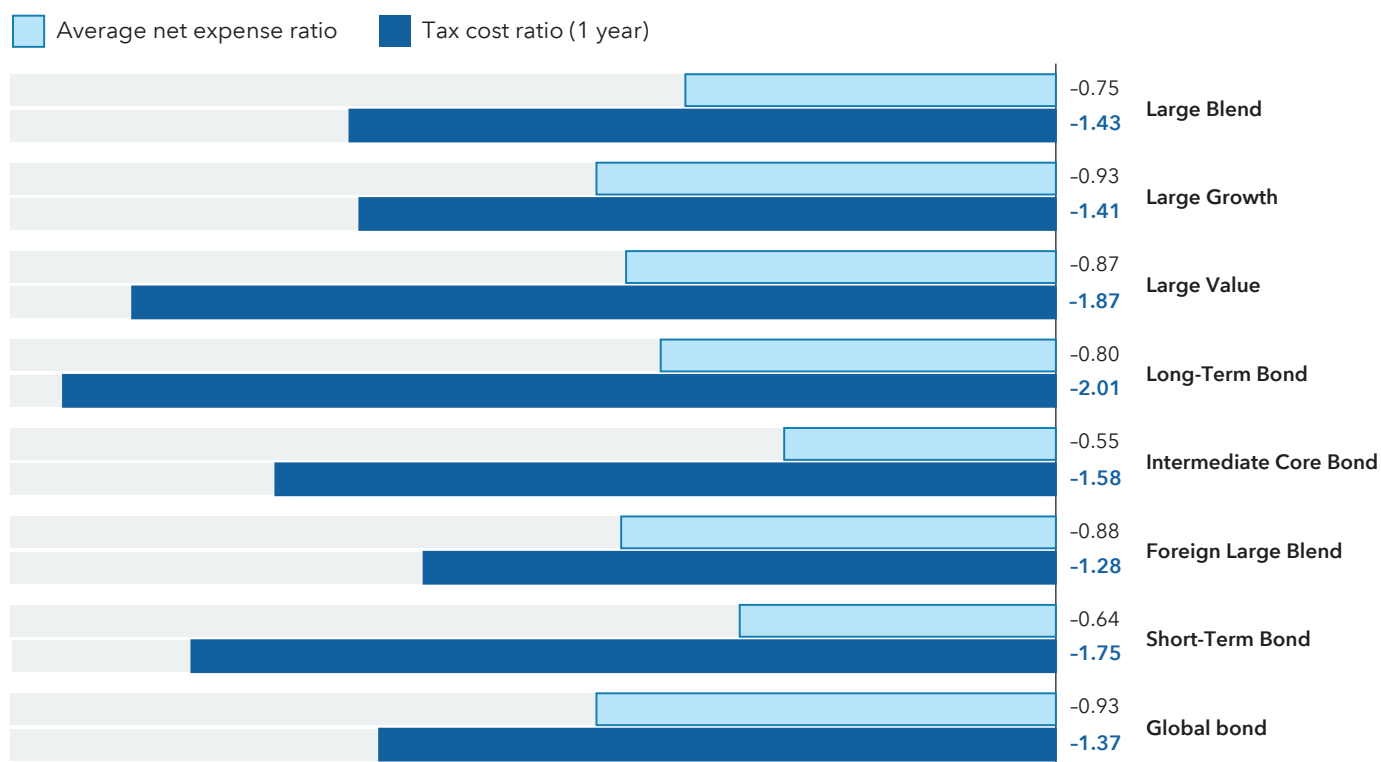
If you're making a sizable donation, and you find that you may not realize the full tax benefit because of those limits, consider spreading your giving over multiple tax years.

If you are age 70 1/2 or older, you may be able to make tax-free donations to a qualified charity directly from your IRA, in life or at death. With qualified charitable contributions (QCDs), individuals can make donations of up to \$108,000 in 2025. For those who are taking required minimum distributions, QCDs can be used to satisfy them.

2 | Inside your portfolio: Consider taking a tax-aware approach to growing your assets

There is a misconception that tax efficiency is primarily about tax planning, but much can be achieved with investment planning as well. For example, it's common for investors to scrutinize the investment fees they pay. And while fees are important to monitor, it's also true that for a majority of asset classes, taxes can be a bigger drag on investment results than fees. As measured by Morningstar, one-year tax costs have been higher than the average net expense ratio in numerous asset categories. In fact, in some fixed income categories, including long-term bonds and intermediate core bonds, the tax cost has been more than double the net expense ratio. There are numerous strategies you can use to manage tax costs by taking a tax-aware approach to growing assets.

Tax drag impact on results compared to expense ratio by Morningstar category



Source: Morningstar as of 4/30/25. Morningstar categories include mutual funds, index funds and exchange-traded funds (ETFs).

Per the SEC's guidance, after-tax returns are calculated with the highest tax rates prevailing at the time of the distribution, as if the investor were in the highest tax bracket (37% maximum federal tax rate on capital gains and ordinary income). Because Morningstar uses after-tax returns to calculate the tax cost ratio, those assumptions also apply to the tax cost ratio. Therefore, the tax cost ratio is an estimate of what investors experienced. Investors in lower tax brackets will not experience the full tax costs implied by the tax cost ratio.



Harvest your losses. Many of us dislike the idea of giving up on an investment that has lost money. But if you can put your investing pride aside, selling at a loss can be an important part of a strategy to reduce overall tax liability. Tax-loss harvesting – selling one investment at a loss to offset gains on the sale of another, thereby reducing the tax impact – is particularly relevant during bull markets.

Tax-loss harvesting also offers an opportunity to add efficiency to an investment portfolio, if you replace the sold investment with one that's higher quality, has a lower expense ratio or is more tax efficient – or a combination of the three. Indeed, the benefits of tax-loss harvesting can be even greater if there is a chance that gains in the future will be taxed at a lower rate than the losses are today.

"If you have or are expecting a large capital gain, you might look to an investment portfolio to see if there are losses to harvest to help mitigate them," advises Leslie Geller, senior wealth strategist at Capital Group. "Tax-loss harvesting can be a great strategy if it makes sense in terms of the client's overall financial picture."

Tax-losses can also be carried forward. Accordingly, you don't have substantial current capital gains but are expecting them in the near future, you might consider recognizing those losses now, especially if the position is expected to rebound.

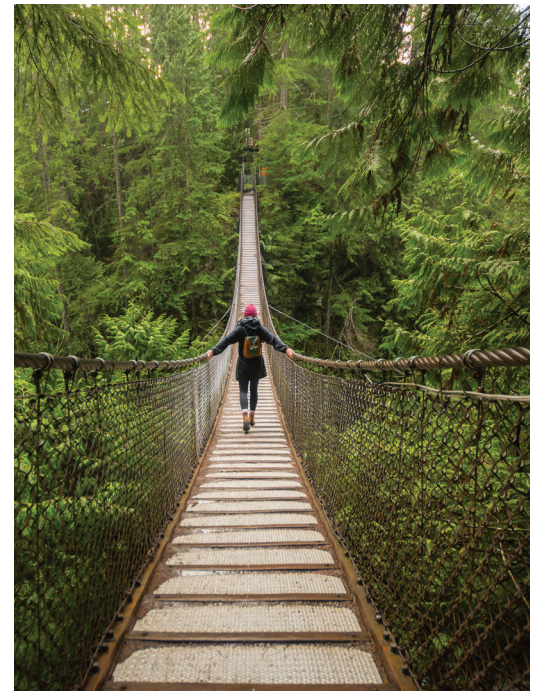
Consider asset location. Where certain types of investments are held can also be streamlined for tax efficiency. Less tax-efficient investments should generally be held in retirement accounts and more tax-efficient ones in non-qualified, or after tax, individual investing accounts.

Consider tax-efficient investment vehicles

If you have harvested gains or losses and are looking to reinvest, you might consider investing in exchange-traded funds (ETFs), separately managed accounts (SMAs) and tax-aware mutual funds.

ETFs may provide tax advantages that stem from the way that they're structured, which allows for tax efficiency. ETFs trade in the secondary market, like a stock exchange, which largely insulates the fund from individual investors' trading activity. In other words, if an ETF investor decides to sell shares of an ETF, a majority of the time, the transaction will occur in a secondary market, which does not involve any interaction with (or impact to) the fund.

With an SMA, unlike a mutual fund or ETF, you own the individual securities in a personalized account aligned to your objectives. You don't have to worry about the behavior of other investors in the vehicle. That can make it easier to pursue certain tax goals, whether through tax-loss harvesting or investing in tax-free municipal bonds.



	Limited flexibility		Most flexibility to customize and manage tax liability across a client's portfolios
	Mutual funds	ETFs	SMAs
Who controls tax management within each vehicle	Portfolio managers	Portfolio managers	Portfolio managers financial professionals and/or individual investors
Tax management methods	May use tax-loss harvesting to mitigate potential realization of capital gains	May use tax-loss harvesting and in-kind creation and redemption to minimize and defer capital gains	May choose to tax-loss harvest at the individual security level to minimize and defer capital gains
Ways to fund	Cash required to fund	Cash required to fund	Can be funded with cash and/or in-kind trades
Account types	Tend to be attractive for qualified* accounts	Tend to be attractive for non-qualified† accounts	Tend to be attractive for non-qualified accounts
Minimum investment and fees	Typically a \$250 minimum for Capital Group. Investors pay expense ratios, which include management fees and operating expenses; some share classes also include distribution and servicing fees.	ETF share price or \$1 for platforms that allow fractional shares. Investors pay expense ratios.	Typically \$100,000 to \$250,000 minimum for Capital Group, depending on the asset class. Typically, investors pay the program sponsor an all-in or "wrap" fee, which includes an investment management fee, an advisory fee and a platform fee that covers trade and other administrative fees.
Liquidity	Transactions occur at next available net asset value (NAV), typically settling at T+1 (one business day after transaction). Regulations allow for a maximum of T+7 (seven business days after transaction).	Transactions occur at any time during market open hours.	Requires notification to the account manager and can occur the same day for equities or up to five to 10 business days post-request for fixed income depending on the securities' liquidity.

Source: Capital Group.

*Qualified accounts refers to tax-advantaged retirement accounts such as 401(k)s, IRAs and SIMPLE IRAs.

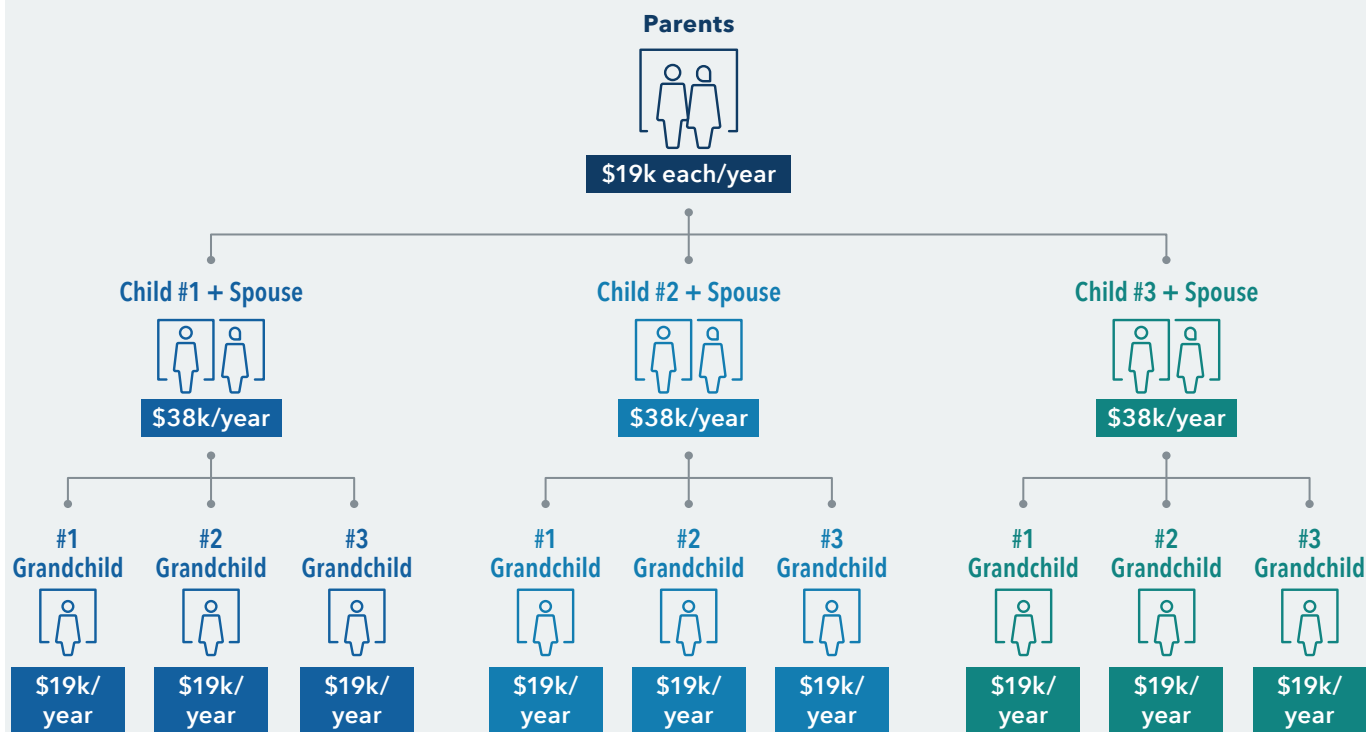
†Non-qualified are accounts that do not have tax-deferred or tax-exempt status.

3 | Beyond the basics: Consider these estate strategies to reduce taxes

We've discussed charitable donations to mitigate annual income tax liabilities, now we come to the second kind of tax-advantaged giving: giving to reduce exposure to the estate tax. Again, as we said above, you may feel this kind of estate planning doesn't apply to you, at least not yet. But as time goes by and your financial objectives evolve, you may be well served to consider these issues sooner rather than later. And some aspects of giving to reduce potential estate tax exposure are surprisingly simple.

Maximize annual gifts to children and grandchildren. There are opportunities to give a great deal without facing gift taxes. The annual exclusion amount for 2025 – which you can gift per person, per year, without incurring gift tax and without eating into your lifetime exemption amount – is \$19,000 per recipient, and \$38,000 per recipient for married couples giving jointly. This annual gift amount changes annually.

The power of giving



Source: Capital Group, 2025.

Give to cover medical bills and tuition. You can also give tax-free to help children or grandchildren pay medical bills or tuition. Such gifts are also excluded from the federal gift tax. Note, payments must be made directly to the provider in order to be excluded from gift tax. To be clear, these are not ways of reducing income taxes, but ways to use money from your estate, which means that your estate, and estate taxes, will ultimately be lower.

Boost the benefits with 529s. If you are making a gift, a 529 education savings plan can be a great way to do it. These plans offer a simple way to remove assets from your estate while still achieving tax-deferred investment growth for future generations. Plus, withdrawals are free from federal tax and generally not subject to state tax if the funds are used to pay qualified education expenses. State tax treatment varies.

Under the new tax law, tax-advantaged 529 accounts can now be used to cover a wider array of qualified educational expenses, including some trade credential programs. Qualified education expenses in connection with enrollment or attendance at an elementary or secondary private or religious school (kindergarten through 12th grade) have been expanded beyond just tuition, including costs for books, online education materials and tutoring fees. Additionally, starting in 2026, the annual limit for K-12 expenses will increase to \$20,000 (up from \$10,000).

Develop a broader gifting strategy around 529 savings accounts.







Remember, the Setting Every Community Up for Retirement Enhancement Act of 2022 (SECURE 2.0) also allows a beneficiary to roll over up to \$35,000 over their lifetime from a 529 plan directly to a Roth IRA (individual retirement account) without taxes or penalties, within certain limitations.¹ This could be good news if you find yourself with overfunded 529 savings accounts for children or grandchildren.

Grandparents especially may love this idea. Not only are you funding a 529 to pay for higher education, but you could also end up giving your grandchild a little boost in their retirement savings.

Consider the lifetime gift and estate tax exemption. Consider the lifetime gift and estate tax exemption. Under the sweeping Tax Cuts and Jobs Act of 2017, the lifetime exemptions to the federal gift and estate tax rose to new highs – the exemption for individuals is \$13.99 million in 2025, and for married couples giving jointly, it is \$27.98 million. OBBBA raises it even higher in 2026, to \$15 million and \$30 million. These are historically high levels, so it is worth giving special consideration to taking advantage of the exemption.

¹The Roth IRA must be in the name of the beneficiary and the 529 savings account must be at least 15 years old. The amount to be rolled over must have been in the account for at least five years. Rollover contributions must be within Roth IRA annual contribution limits reduced by any "regular" traditional or Roth IRA contributions made by the beneficiary in that year.

Ways to give from your estate

	Gifts that are not more than the annual exclusion amount, \$19,000 per person (\$38,000 per married couple), to as many people as you want, every year. This amount typically changes every year.
	Tuition (NOT expenses) for anyone, if paid directly to the school
	Medical expenses for anyone, if paid directly to health care provider
	Gifts to your spouse (if your spouse is a U.S. citizen)
	Gifts to a political organization for its use
	Gifts to certain charities

Source: Capital Group, 2025.



New tax cuts from Washington

In a departure from Washington's tradition of procrastination and last-minute action on budget bills, Congress in early July passed President Trump's "One Big Beautiful Bill Act," a massive tax and spending bill intended to deliver much of the president's domestic agenda.

The bill makes permanent a slew of temporary tax cuts from 2017, including lower tax rates for income taxes, expanded exemptions from the alternative minimum income tax and historically high exemptions from the lifetime estate and gift tax.

The bill is packed with other significant tax changes. It expands the uses of 529 educational savings accounts and sharply reduces taxes on tips and overtime wages. Of interest to many investors, it contains several tax changes favorable to small businesses and their owners, notably making permanent the 20% deduction for qualified business income.

Leaving policy aside, from a wealth planning perspective, we encourage you to stay focused on long-term planning. Don't let political drama in Washington dictate your approach. Or, as we often counsel, "Don't let the tax tail wag the planning dog."

Instead, keep focused on your goals for your estate. Ask yourself: What do you want your wealth to achieve? What can you actually afford to give away? The answers could diffuse that short-term pressure.

Tax Changes in the "One Big Beautiful Bill"

Made permanent: Lifetime gift/estate/generation-skipping transfer exemption, rises to \$15 million per person in 2026

Made permanent: Income tax rates of 10%, 12%, 22%, 24%, 32%, 35% and 37%

Made permanent: Higher exemptions and exemption phaseout thresholds for alternative minimum tax (AMT)

Temporary state relief: The state and local tax (SALT) deduction cap was increased, from \$10,000 to \$40,000, increasing by 1% annually through 2029. Phases out for taxpayers with income above \$500,000. Reverts to \$10,000 after 2029.

Small Business boost: 20% deduction for qualified business income is made permanent; accelerated depreciation for capital expenditures, immediate deductions for research expenses

Source: Capital Group, 2025.

How you approach a gifting strategy depends on your specific circumstances.

Here are a few examples that may help you make sense of different strategies.

Scenario #1: You understand the tax benefits of making a gift, but you're reluctant to give up access to the assets:

If you're thinking you want the tax benefits of giving away assets, but are also concerned about losing access to the assets (and the future appreciation), give consideration to gifting structures that allow you to retain some access to the gifted assets – e.g., a spousal lifetime access trust, or SLAT. This is often the case with younger clients.

By creating a SLAT, you can utilize a lifetime exemption to remove assets and appreciation from your estate, while maintaining indirect access to the assets through your spouse's beneficial interest. SLATs have many advantages, but some drawbacks and complications, particularly if you bring community property into the SLAT, or if the spouses divorce.

Scenario #2: You have an asset that is expected to substantially appreciate:

You may have assets that are currently depressed or low in value but are expected to rebound or appreciate significantly. In this scenario you may want to discuss estate "freeze" techniques with an estate planning attorney. With estate freeze techniques, you are not gifting an entire asset, but rather the future appreciation. These gifting structures are intended to "freeze" the value of the asset in the client's hands as of the date of the transfer, thereby removing the future appreciation from the estate.

Some of the more popular freeze techniques include: grantor-retained annuity trusts (GRATs) and intra-family loans.

Scenario #3: You are selling a business:

As baby boomers age, we're in the midst of the greatest wealth transfer in history. A big part of that transfer is the sale of businesses. Income and estate taxes should both be considered when structuring the terms of a sale. For example, if you are considering selling a business at a "bargain" price to a family member, be careful! If shares are sold at below market value, or for nothing, that could be considered a gift and subject to capital gains taxes.

Don't forget state taxes

While most of the tax news you hear centers on federal taxes, it's important to understand the impact of state and local taxes on your financial plan. For example, the Federal exemption amount on gift and estate taxes may be at a historical high, but some states impose their own estate tax. And in some states, the exemptions remain relatively low, which means they could impact more individuals. In New York, for example, the exemption is just \$6 million. Maryland has both an inheritance tax and a state estate tax. And the governor of Maryland has proposed lowering the state estate tax exemption from \$5 million to \$2 million.

Know the trade-offs relative to client goals

These are sophisticated techniques, so be sure to talk to an attorney and discuss with your financial advisor before considering them. Building tax-efficient portfolios can make a big difference in the long term. But vehicle selection depends on client-specific circumstances such as asset base, account type, cash flow and portfolio composition. How much flexibility do you need?

Talk to your financial advisor and tax professional to discuss these and other ways to achieve tax awareness, mitigation and efficiency.

Smart tax strategies for investors to consider

Timely conversations for tax awareness, mitigation and efficiency

1 Easy tax mitigation opportunities

- Max out annual retirement plan contributions
- Use catch-up contribution opportunities
- Leverage charitable giving to reduce income tax

2 A tax-aware approach to growing your assets

- Take advantage of tax-loss harvesting
- Consider tax-efficient investment vehicles, including active ETFs, SMAs and tax-aware mutual funds
- Understand tax trade offs relative to your goals

3 Strategies to reduce estate taxes

- Make gifts under annual gift tax exemptions
- Use 529 plans as a strategic gifting tool
- Consider more sophisticated options using trusts or intra-family loans



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*Source: Marketing Support: The Advisor View, May 2025, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022.

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