YOUR FINANCES
Payouts Like 2017's?

Capital Gains, Dividends: It's Distributions Season

Many investors make buy, sell decisions based on tax consequences

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

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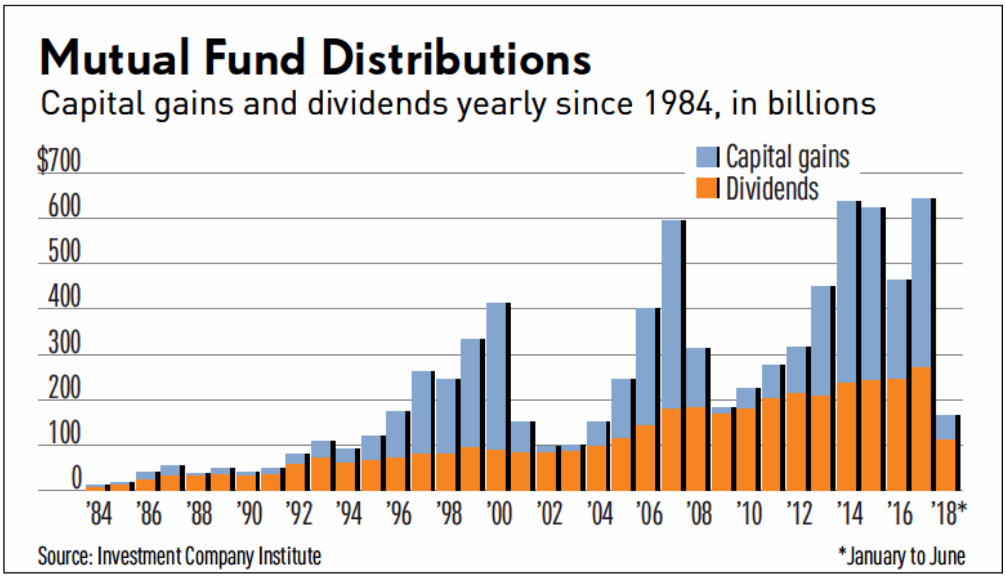

The main mutual fund distributions season is approaching. Signs point to 2018 distributions — capital gains and dividends — being the same as or slightly above last year's, which were the largest combined payout ever by stock funds and bond funds.

Last year's total by stock funds and bond funds — known as longterm mutual funds — was $641.3 billion, according to the Investment Company Institute (ICI), an industry group

Through the first six months of this year, long-term mutual fund distributions totaled $165.5 billion. Dividends accounted for $111.7 billion of that.

The bulk of distributions occur at the tail end of the year.

"Dividend income from T. Rowe Price equity funds is up slightly from prior years," said Paul Krug, T. Rowe Price vice president of global tax. "For capital gains, I see retail equity funds up this year vs. 2017." Vanguard tax expert Rich Powers expects payouts similar to last year's.

Funds tend to make big payouts in November and December. They reduce their own tax liability by dishing out the bulk of their capital gains and dividends to shareholders. Basically, funds have until Dec. 31 to distribute capital gains and dividends that they rack up by the end of their excise tax year, Oct. 31.

Krug says T. Rowe Price will report its distributions around Nov.

26. Bottom line: "Our level of appreciation is roughly the same this year as last year," Krug said.

Industrywide, Krug expects bigger capital gains from U.S. stock funds than foreign stock funds this year. "U.S. equities have been stronger performers," Krug said. "And foreign funds have more loss carryforwards available." Loss carry-forwards offset taxable gains.

Fund families typically post fundby-fund payouts on their websites.

Many individual investors in nontax-deferred accounts prefer not to buy fund shares shortly before a fund makes distributions because they don't want tax liability for shares whose price appreciation, if any, they have not benefited from.

For the same reason, in a fund that's expected to make a big distribution many shareholders like to sell shares before the fund's ex-dividend date. That's the date on which a shareholder becomes liable for any tax on the distribution.

That tax liability does not apply to shares held in retirement accounts like an IRA or 401(k).

"If you put holdings with a high incidence of capital gains into taxadvantaged accounts, the conversation (about tax liability) is moot," said Vanguard's Powers. "And if you're looking at (buying shares in) a product with a high incidence of cap gains, it probably belongs in an IRA or 401(k) so the taxes don't detract from the overall total return for that investor."

Also, there's a silver lining to distributions by funds held in taxable accounts. "If you reinvest distributions, that adds to your cost basis," said T. Rowe Price senior financial planner Roger Young. "So when you sell the investment later, you have a smaller taxable gain."