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Income Insights: Understanding Investment Income

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Authors	Date	Topic
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Understanding Investment Income

Investment income comes from various sources, each with its own reporting requirements and tax implications. Below, we explain the primary types of taxable investment income, their applicable tax rates, and the forms used for reporting them.

Interest income
Interest income is earned from savings accounts, taxable bonds, and other interest-bearing accounts. It's generally reported on Form 1099-INT. This form is issued by banks and financial institutions to report interest income over $10. Interest income is generally taxed as ordinary income, which means it's subject to the individual's marginal tax rate (up to 37%) and the net investment income (NII) surtax, if applicable.

Dividend income
Dividends are payments made by corporations to their shareholders and can be classified as either qualified or ordinary dividends. Dividends are reported on Form 1099-DIV. Qualified dividends are taxed at the long-term capital gains rates—which can be 0%, 15%, or 20%—and the NII surtax depending on your taxable income. Ordinary dividends are taxed as ordinary income at your marginal tax rate (up to 37%) and the NII surtax, if applicable.

Capital gains
Capital gains arise from the sale of investments like stocks and bonds and are reported on Form 1099-B. Capital gains are taxed differently depending on the sold asset's holding period. Short-term capital gains are taxed as ordinary income (up to 37% plus the NII surtax, if applicable) and result from the sale of assets held for one year or less. Long-term capital gains, which result from the sale of assets held for more than one year, are taxed at the long-term capital gains rates (0%, 15%, or 20%) plus the NII surtax, if applicable. Capital losses can offset capital gains dollar for dollar. If losses exceed gains, up to $3,000 of the net capital loss can be used to offset ordinary income, potentially lowering the overall tax burden.

Understanding the different types of taxable investment income is essential for effective tax planning. Be sure to maintain accurate records of all investment income and consult a tax professional if you have specific questions about your situation. This knowledge will help you navigate your tax obligations more effectively and potentially minimize your tax liabilities.

exhaustive. Investors should consult their tax advisor or legal counsel for advice and information concerning their particular situation.

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