All income investments aren't alike when it comes to taxes

The tax treatment of investment income varies, and not just based on whether the income is in the form of dividends or interest. Qualified dividends are taxed at the favorable long-term capital gains tax rate (generally 15% or 20%) rather than at the applicable ordinary-income tax rate (which might be as high as 39.6%). Interest income generally is taxed at ordinary-income rates. So stocks that pay qualified dividends may be more attractive tax-wise than other income investments, such as CDs and taxable bonds.

But there are exceptions. For example, some dividends aren't qualified and therefore are subject to ordinary-income rates, such as certain dividends from:

- Real estate investment trusts (REITs),
- Regulated investment companies (RICs),
- Money market mutual funds, and
- Certain foreign investments.

Also, the tax treatment of bond income varies. For example:

- Interest on U.S. government bonds is taxable on federal returns but exempt on state and local returns.
- Interest on state and local government bonds is excludable on federal returns. If the bonds were issued in your home state, interest also might be excludable on your state return.
- Corporate bond interest is fully taxable for federal and state purposes.

While tax treatment shouldn't drive investment decisions, it's one factor to consider — especially when it comes to income investments. For help factoring taxes into your investment strategy, contact us.