

Taxes Matter

Qualified Dividends Have Advantages Over Ordinary Dividends



Funds with the Highest Yields May Not Net the Best After-Tax Income

Investors often contemplate the tax impact of capital gains, but may spend less time considering the difference between qualified dividends and ordinary dividends. For taxable investment accounts, understanding the tax implications for these two types of dividends can increase investors' spending power and boost their ability to compound capital.

The Difference

Qualified dividends meet specific IRS criteria and are taxed at a lower rate than ordinary dividends for individuals meeting a holding period requirement (see reverse). Tax rates on qualified dividends are up to 20 percentage points lower than on ordinary dividends and ordinary income.

For Taxable Accounts, Consider a Fund's After-Tax Dividend Yield

Equity-oriented mutual funds can pass qualified dividends from stocks to their shareholders. But a bond fund's dividends from interest income do not qualify and are taxed at ordinary rates. Chart 1 demonstrates how much taxes matter for a hypothetical investor in the 32% marginal tax bracket when comparing dividends from bond funds against a global income fund comprised of stocks and bonds.

Table 1 | Different Tax Implications
Tax Rates For Married Taxpayers Filing Jointly

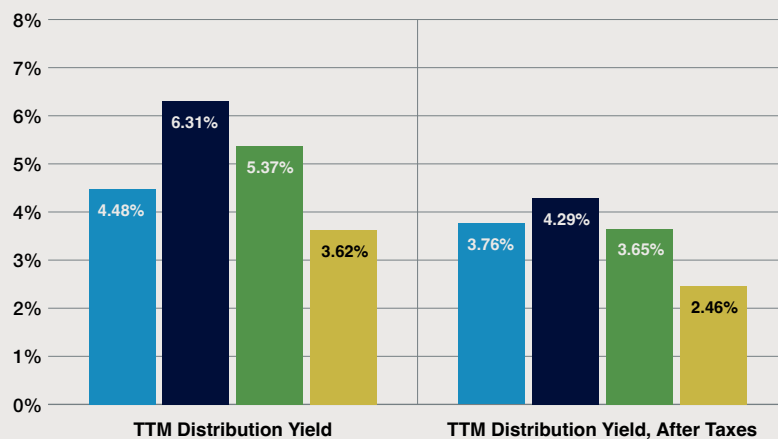
ORDINARY INCOME	QUALIFIED DIVIDENDS
10%	0%
12%	
22%	15%
24%	
32%	
35%	20%
37%	

Source: IRS.gov

Passage of the Tax Cuts and Jobs Act of 2017 adjusted ordinary income brackets, and they no longer align with the brackets for long-term capital gains and qualified dividends.

Certain earners may be subject to an additional 3.8% Net Investment Income Tax on dividends.

Chart 1 | Different Funds Have Different After-Tax Yields (%)



- **Thornburg Investment Income Builder (I Shares)**
- **Morningstar High Yield (Category Median)**
- **Morningstar Multisector Bond (Category Median)**
- **Morningstar Intermediate Core Bond (Category Median)**

Assumes dividends from the bond funds are taxed at the 32% marginal ordinary income tax rate. The tax rate assumption for TIBIX is based on QDI as of last reported calendar year end.

Note: Not all dividends paid by mutual funds are qualified dividends. Mutual funds that pass through dividends to shareholders must meet the same qualified dividend holding period for each stock to avoid ordinary dividend status.

Source: Thornburg Investment Management and Morningstar, as of 30 Sep 2024.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit thornburg.com or call 877-215-1330.

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Criteria for Qualified Dividends

To be considered a qualified dividend, it must be issued by a:

- U.S. corporation
- Foreign corporation that trades on a major U.S. stock exchange (ADRs)
- Corporation incorporated in a U.S. possession
- Foreign corporation located in a country that is eligible for benefits under a U.S. tax treaty that meets certain criteria

Common Disqualifiers

- Capital gains distributions
- Dividends on bank deposits
- Dividends held by a corporation in an Employee Stock Ownership Plan (ESOP)
- Dividends paid by tax-exempt corporations

Other Requirements

- The shares must be owned for at least 61 days within the 121-day period that begins 60 days before the ex-dividend date and 60 days after the ex-dividend date.
- The shares cannot be hedged during a qualifying 61-day period. For example, no long puts, short calls, or shorting of associated shares.

Keep the Income

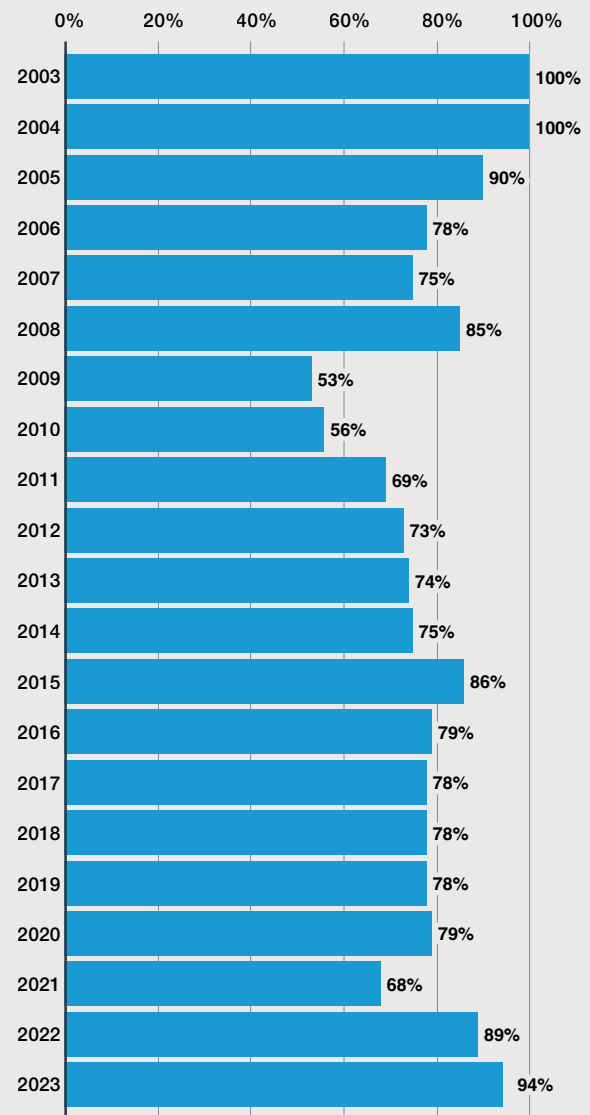
Thornburg Investment Income Builder Fund historically has provided an attractive level of after-tax income by delivering the majority of dividends as qualified distributions (see Chart 2).

Symbols and CUSIPs

A Shares TIBAX 885-215-558
C Shares TIBCX 885-215-541
I Shares TIBIX 885-215-467

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Chart 2 | Thornburg Investment Income Builder Fund Percent of Qualified Distributions



Qualified dividend income calculation includes dividends and short-term capital gains.
Source: Thornburg Investment Management, as of 31 Dec 2023.



Thornburg Investment Income Builder Fund Average Annual Returns (%)

	QTR	YTD	1 YR	3 YR	5 YR	10 YR	ITD
A Shares TIBAX (Incep: 24 Dec 2002)							
Without sales charge	6.32	15.25	24.85	10.41	9.37	6.95	9.16
With sales charge	1.56	10.08	19.24	8.73	8.37	6.46	8.93
I Shares* TIBIX (Incep: 3 Nov 2003)	6.38	15.44	25.12	10.67	9.62	7.24	9.51
Investment Income Builder Blended Index (Since: 24 Dec 2002)	6.07	15.13	26.96	6.52	9.97	8.15	9.33

ITD - Inception to Date

* Prior to inception of class I shares, performance is calculated from actual returns of the class A shares adjusted for the lower Institutional expenses.

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Important Information

Unless otherwise noted, all data is as of 30 September 2024

Investments carry risks, including possible loss of principal. Additional risks may be associated with investments outside the United States, especially in emerging markets, including currency fluctuations, illiquidity, volatility, and political and economic risks. Investments in small- and mid-capitalization companies may increase the risk of greater price fluctuations. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

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This communication is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Fund.

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