

Tax Aware

Understanding the Tax Efficiency of Relaxed-Constraint Equity Strategies

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We show how relaxing the long-only constraint may increase tax efficiency. We explain the tax benefits of relaxed-constraint equity strategies using an innovative decomposition of the total tax benefit into character and deferral components. We argue that our character-deferral decomposition can help investors intuitively understand the kind of tax benefits they may derive, or tax costs they may face, when allocating to different beta-one equity strategies. Finally, we describe the potential impact of the Tax Cuts and Jobs Act of 2017 on the tax benefits of tax-aware relaxed-constraint strategies.

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