

# Tax-Free In, Tax-Efficient Within

## Section 351 Exchange → Immediate Tax Relief, Long-Term Tax Efficiency

### Tax-Free Today – Section 351 Exchange

- Transfer appreciated securities to a newly launched ETF without recognizing capital gains at transfer.
- Original cost basis and holding period carry over to the received ETF shares.
- Helps reposition legacy or concentrated holdings without a taxable event today.

**Skip the tax bill today – keep more of your capital working:** Assume an investor holds \$1M of appreciated stock with a \$200K cost basis. Selling would trigger an upfront tax bill of nearly \$190K. A 351 exchange allows the full \$1M to move into the ETF with no tax owed at the time of transfer, keeping those dollars working and compounding instead.

### Tax-Efficient Tomorrow – ETF Wrapper

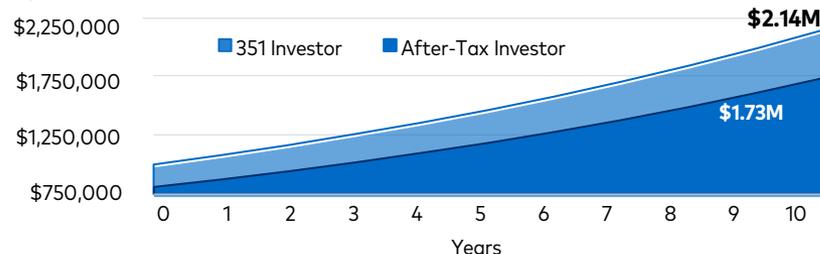
- In-kind creations and redemptions—when available—limit fund-level capital gains and taxable distributions.
- Investors control when gains are realized—typically when they sell ETF shares.
- ETFs help reduce tax drag, supporting stronger after-tax compounding over time.

**Section 351 investors amass continued tax benefits:** Assume two investors invest in the same ETF—one via a Section 351 exchange and one without. The 351 investor contributes \$1M tax-free. The non-351 investor can only invest \$809,600 after tax. After 10 years, the 351 investment grows to ~\$2.14M vs. ~\$1.73M—over \$400K more, as the 351 Exchange allowed more of the investor's money to stay invested.

Figure 1:



Figure 2:



**Assumptions:** Long-Term Capital Gains + Net Investment Income Tax Rate: 23.8%. Figure 2: Annual gross return for each both vehicle is 8%, ETF annual taxable distribution: 0.5% of NAV, Taxes assessed each year on the distribution amount reduce that year's value (after-tax compounding). All distributions are assumed to be reinvested.

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