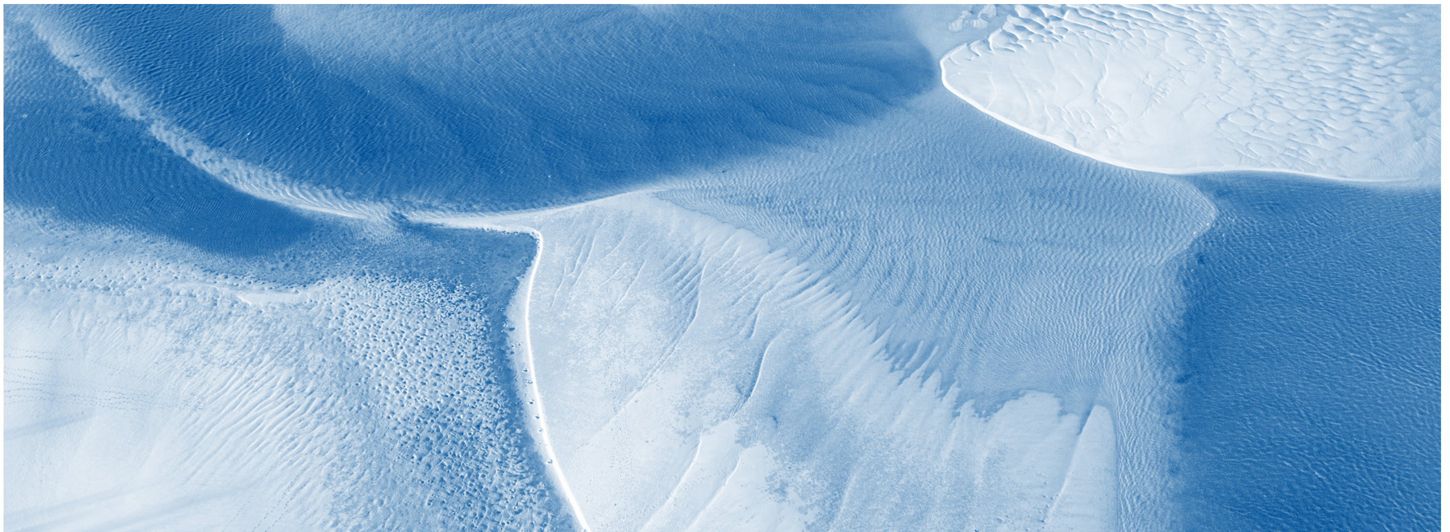

How ETFs Can Deliver Tax Benefits

Returns matter for investors, but what really matters are after-tax returns.

Fortunately, the way exchange-traded funds are designed can help minimize the taxes paid by investors holding the ETF.

Here's how it works: ETFs can engage in "in kind" transactions for their underlying securities, which avoid the realization of capital gains. This leads to lower capital gains taxes payable for those who hold an ETF in their portfolio. So, while investors will still realize capital gains for the increase in their purchase price versus their sale price, trading activity within the ETF likely won't have any tax implications.

Lazard
Asset Management

A Closer Look at the Tax Benefits

If the ETF's price is higher than the fair value of its underlying holdings (its net asset value), the Authorized Participant will buy the underlying holdings of the ETF, pass these holdings to the Issuer to create ETF shares (in the primary market), and sell the ETF shares trading at a premium on the exchange (i.e., the secondary market), profiting on the difference.

Contrastingly, if the ETF's price is lower than the fair value of its underlying holdings, the Authorized Participant would buy the cheap ETF shares on the secondary market and redeem the shares in the primary market, profiting on the sale of the underlying holdings. This would eventually bring the ETF's price up, eliminating much, or all, of its discount to net asset value. It is important to note that the Authorized Participant and ETF Issuer aren't selling shares back and forth—they're passing them in and out of the fund "in kind" through the creation and redemption processes.

The difference may seem trivial, but this ability to create and redeem ETF shares "in kind" is what makes ETFs much more efficient from a tax perspective than mutual funds. When a stock (or bond) is purchased, that purchase price is captured for tax purposes as "cost basis." Any increase or decrease in value is measured against that basis in terms of taxable gains or losses.

For mutual funds, each transaction involving a realized gain or loss is known as a taxable event. Taxable events thus accumulate throughout the year. At year end, the fund's investors may receive a taxable distribution or "capital gains distribution," representing the gains generated by the fund's transactions passed along to the investor.

ETFs, on the other hand, through the creation and redemption process, allow the Issuer and the Authorized Participant to minimize taxable events by exchanging ETF shares and underlying securities "in kind" when possible, making capital gains distributions less likely. In this way, an ETF investor's capital gains are not influenced by other investors entering and exiting the fund.

Always consult a tax professional for specific advice or recommendations.

Important Information

Published on 1 April 2025.

For mutual funds each transaction involving a realized gain or loss is known as a taxable event. Taxable events thus accumulate throughout the year. At year end, the fund's investors may receive a taxable distribution or "capital gains distribution," representing the gains generated by the fund's transactions passed along to the investor.

ETFs, on the other hand, through the creation and redemption process, allow the Issuer and the Authorized Participant to minimize taxable events by exchanging ETF shares and underlying securities "in kind" when possible, making capital gains distributions less likely. In this way, an ETF investor's capital gains are not influenced by other investors entering and exiting the fund.

Always consult a tax professional for specific advice or recommendations.

The financial data presented is provided by external sources. Lazard Asset Management LLC takes reasonable care to ensure that the information provided is correct, but it neither warrants, represents, nor guarantees the content of the information nor does it accept responsibility for errors, inaccuracies, omissions, or inconsistencies.

This does not constitute legal, financial, or tax advice. We are not tax professionals. For specific advice applicable to your business, please contact a tax professional.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging markets securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging markets countries.

Certain information contained herein constitutes "forward-looking statements", which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "intent," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events may differ materially from those reflected or contemplated in such forward-looking statements.

Investment Products: NOT FDIC INSURED I NOT BANK GUARANTEED I MAY LOSE VALUE

Please consider a fund's investment objectives, risks, charges, and expenses carefully before investing. For more complete information about Lazard ETFs and current performance, you may obtain a prospectus or summary prospectus by calling 800-823-6300 or going to www.lazardassetmanagement.com. Read the prospectus or summary prospectus carefully before you invest. The prospectus and summary prospectus contain investment objectives, risks, charges, expenses, and other information about the Portfolio and Lazard ETFs that may not be detailed in this document.

The Lazard ETFs are distributed by Foreside Fund Services, LLC.

LRX957354