

ABOVE THE FRAY

Managing Dividend Income to Improve Your Tax Health

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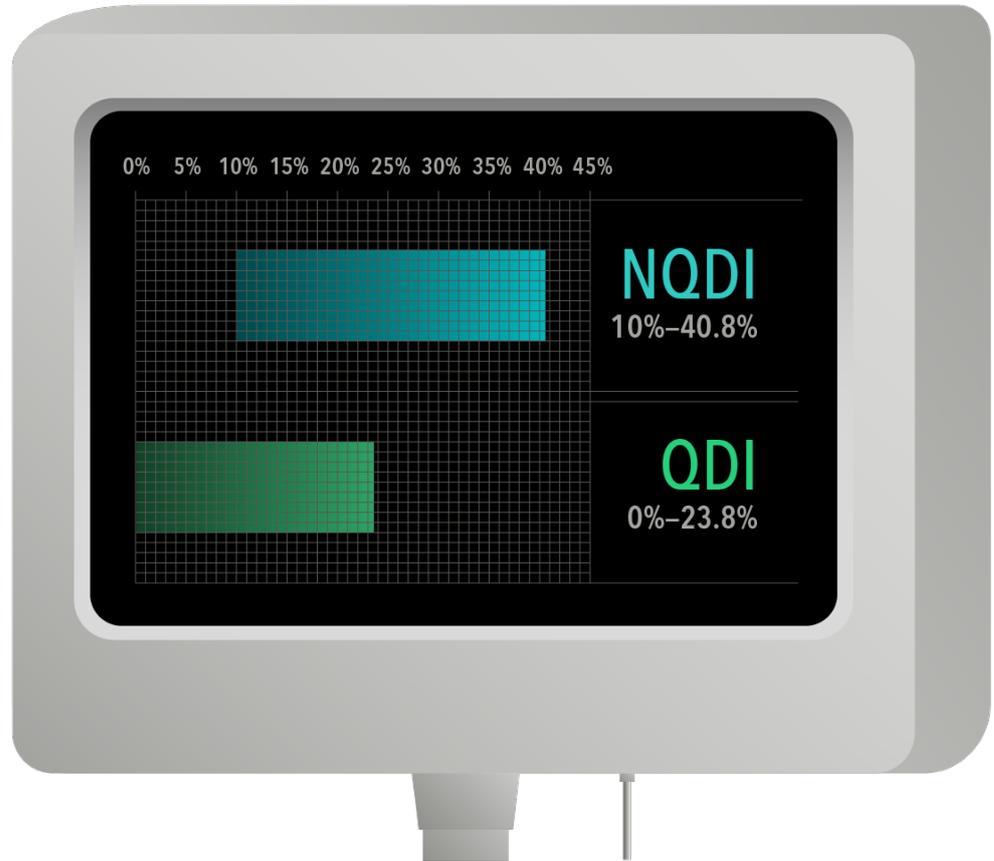
When it comes to taxes, not all dividend income is the same. Qualified and nonqualified dividends have different implications for your portfolio's tax efficiency, just as HDL and LDL cholesterol have different implications for your health.

Qualified income, or QDI, is generally taxed at lower rates in the United States than nonqualified income (NQDI). In 2025, the maximum tax rate for NQDI was 40.8%, compared to 23.8% for QDI.¹ Like LDL, the "bad kind" of cholesterol, NQDI requires strategies to keep it in check. For a portfolio manager, increasing the percentage of total income that is qualified starts with understanding the sources of income in a portfolio.

NQDI can arise from several sources. One is the type of securities the portfolio may hold. For example, income from real estate investment trusts (REITs) is typically treated as NQDI. Another source is trading activity. Having the flexibility to consider minimum holding periods around dividend payment dates when buying and selling securities can help reduce unnecessary NQDI.

Maximizing the extent to which income is qualified can be beneficial for tax outcomes, just as tracking your cholesterol can help improve health outcomes.

Exhibit 1
Income Tax Rates for
QDI and NQDI, 2025



This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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1. Assumes highest marginal tax rates of 20% for QDI and 37% for NQDI and an additional 3.8% net investment income tax. Alternative minimum tax and/or state and local taxes may also apply.

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