

Understanding capital gains: How ETFs can help minimize taxes

Invesco · 2026-09-18 · English original

Key takeaways

Capital gains are an investor's profit on the sale of investable assets, such as stocks, bonds, and real estate.

ETFs avoid the cash transactions that can trigger unwanted taxable events for mutual fund investors.

A majority of mutual funds distributed capital gains to shareholders in 2025, while only a few ETFs did.

Effective tax management can help unlock your portfolio's full potential. One strategy may be to limit certain types of capital gains distributions that add to your tax bill. Exchange-traded funds (ETFs) are a tax-efficient way to invest. ETFs are structured to reduce distributions, helping you keep more of what you earn.

What are capital gains, and how are they taxed?

A capital gain is an investor's profit on the sale of investable assets, such as stocks, bonds, and real estate. That sounds positive — and it is. But investors have to pay taxes on realized capital gains when they sell. Investors should also understand that they may be taxed on capital gains from funds they own — even if they don't sell their fund shares. With certain types of funds, if a fund manager sells a holding at a profit (without having any losses to offset the gain), then the gains are distributed to the fund shareholders. ETFs, however, have structural features which potentially help them avoid these types of distributions.

Why are ETFs tax efficient with capital gains?

A primary reason so many investors have gravitated to ETFs in recent years is their tax efficiency. The tax benefits of ETFs are rooted in their in-kind creation and redemption feature. ETF creation and redemption may avoid the cash transactions that trigger unwanted taxable events for investors in mutual funds.

In 2025, only 12, or 5%, of Invesco's ETFs distributed capital gains for one of the lowest percentages in the industry.¹ And many, such as Invesco NASDAQ 100 ETF (QQQM), Invesco S&P 500® Equal Weight ETF (RSP), and Invesco S&P 500® Quality ETF (SPHQ), have never paid capital gains distributions in their lifetime.

How common are capital gains distributions for US equity mutual funds?

In 2025, 85% of US equity mutual funds paid capital gains distributions to their shareholders. Over the past 10 years, the average annual distribution from US equity style box mutual funds ranged from 5% to 8% of the fund's net asset value.² Paying taxes on those distributions can erode portfolio returns over time. Capital gains are generally distributed to fund holders once a year, usually in December.

In 2025, of the 1,983 ETFs offered by the 15 largest US issuers, only 82 of those funds, distributed capital gains in excess of 1%.¹

How are long-term capital gains taxed?

US tax policy is often complex and fluid. But long-term capital gains tax rules for positions held over one year are relatively straightforward. For 2025, investors earning between \$48,350 and \$533,400 annually and married couples filing jointly earning between \$96,700 and \$600,050 are subject to a 15% long-term capital gains tax rates, according to the IRS.³ Taxable income above \$533,400 for single filers and \$600,050 for jointly filing married couples is subject to a 20% long-term capital gains tax rate.³

Next steps

Download our capital gains distribution reference guide.

Source: Morningstar as of 12/31/2025. Based on a total universe of 3,197 US equity mutual funds. 10-year period from 1/1/16 to 12/31/25.

Source: IRS.gov, "Topic No. 409, Capital Gains and Losses," as of 12/31/2025

- July 7, 2025
- Video January 15, 2026
- January 22, 2020
- September 18, 2026

There are risks involved with investing in ETFs, including possible loss of money. Index-based ETFs are not actively managed. Actively managed ETFs do not necessarily seek to replicate the performance of a specified index. Both index-based and actively managed ETFs are subject to risks similar to stocks, including those related to short selling and margin maintenance. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Index. The Funds are subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Funds.

Invesco does not provide tax advice. Investors should always consult their own legal or tax professional for information concerning their individual situation.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Although it is not Invesco's intention, there can be no guarantee the fund(s) will not pay a capital gain.

ETFs vs. mutual funds: ETFs generally have lower expenses than actively managed mutual funds due to their different management styles. Most ETFs are passively managed and are structured to track an index, whereas many mutual funds are actively managed and thus have higher management fees. Unlike ETFs, actively managed mutual funds have the ability react to market changes and the potential to outperform a stated benchmark. Since ordinary brokerage commissions apply for each ETF buy and sell transaction, frequent trading activity may increase the cost of ETFs. ETFs can be traded throughout the day, whereas mutual funds are traded only once a day. While extreme market conditions could result in illiquidity for ETFs, typically they are still more liquid than most traditional mutual funds because they trade on exchanges.

Leaving Invesco.com

This link takes you to a site not affiliated with Invesco. The site is for informational purposes only. Invesco does not guarantee nor take any responsibility for any of the content.

Source: <https://www.invesco.com/us/en/insights/etf-tax-efficient-capital-gains.html>