

FIDELITY WEALTH MANAGEMENT **WEBINAR**

# TAX PLANNING OPPORTUNITIES



# Our Speakers

## Special guest panelists



**Christopher Fusé**  
**Portfolio Manager, Strategic Advisers LLC, Fidelity Investments**

Chris Fusé is a portfolio manager at Strategic Advisers LLC, a registered investment adviser and a Fidelity Investments company. Fidelity Investments is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing, and other financial products and services to institutions, financial intermediaries, and individuals.



**Louis Gentile**  
**Regional Vice President, Advanced Planning, Fidelity Investments**

Louis and his team partner with Fidelity advisors to help clients address their unique planning and wealth transfer goals. He joined Fidelity in 2015 as a regional vice president of Advanced Planning. In this role, he leads a regional team of professionals responsible for educating both clients and the broader Fidelity organization regarding family wealth planning strategies, including estate, trust, gift, and charitable planning techniques.



**Michelle Howell, CFP®**  
**Vice President, Financial Consultant, Fidelity Investments**

Michelle is a vice president, financial consultant, and she supports clients and their families with wealth planning strategies. Michelle has worked for more than 20 years in the securities industry. She joined Fidelity in 2005 and has held positions as a financial representative, an investment representative, and a financial planning consultant.



**Christopher Williams**  
**Principal, Private Client Services, Ernst & Young (EY)**

Chris is a leader in the Northeast Region Private Client Services group at EY. He is also a member of the Americas and Global PFS leadership teams. For more than 19 years, Chris has provided tax and financial planning services for ultra-high-net-worth individuals, business owners, and senior corporate executives, as well as their related partnerships, private foundations, and trusts. Chris focuses on advising clients on income tax planning and preparation, estate and business succession planning, corporate benefit optimization (e.g., stock options, restricted stock, deferred compensation, and pension distribution planning), cash flow/budgeting and debt management, cross border planning, asset allocation, retirement planning, risk management, charitable giving, and tax authority examinations.

# Biden tax proposals — Individual income taxes

- **Rates**

- For taxpayers with taxable incomes in excess of \$400,000, the 39.6% maximum rate is restored from the current 37% maximum rate
- **Impact:** For taxpayers with \$1,000,000 of taxable income, they will pay an additional \$15,600 in income taxes

- **Capital gains and qualifying dividends**

- For taxpayers with taxable income in excess of \$1,000,000, a 39.6% rate will apply (versus 20% for long term gains/qualified dividends)
- **Impact:** For taxpayers with \$2,000,000 of taxable income, \$1,000,000 of which is capital gain, they will pay an additional \$196,000 in tax on that gain

- **Itemized deductions**

- Caps the tax benefit of itemized deductions at 28%
- **Impact:** For taxpayers in the 39.6% maximum tax bracket with \$100,000 in itemized deductions, they will pay an additional \$11,600 in income taxes

- **Pease limitation**

- Restores the limitation for taxpayers with taxable income in excess of \$400,000 (but cannot reduce itemized deductions by more than 80%)
- **Impact:** Assuming a 3% reduction is applicable, for taxpayers in the 39.6% maximum tax bracket with \$100,000 in itemized deductions, they will pay an additional \$7,128 in income taxes

# Biden tax proposals — Individual income taxes

## Social Security taxes:

- Imposes a new 12.4% Social Security/self-employment tax on earnings in excess of \$400,000
  - Gap between the current maximum amount of self-employment income/wages subject to tax of \$137,700 and the amount in excess of \$400,000, which would not be subject to tax
  - With respect to wages, the current apportionment of the tax would apply with the employer paying 1/2 of the tax and the employee paying the other 1/2 of the tax
- For taxpayers with \$1,000,000 in self-employment income, they will pay an additional \$74,400 in taxes

## Transfer taxes:

- Eliminates the current step-up in basis on death
- Biden has not yet called for such a reduction in lifetime exemption nor has he proposed increasing the maximum gift and estate tax rate of 40%

## Other items

### **State and Local Tax (SALT) Deduction**

- Currently limited to \$10,000. Disproportionate impact to taxpayers in high tax states.

### **Retirement Plans**

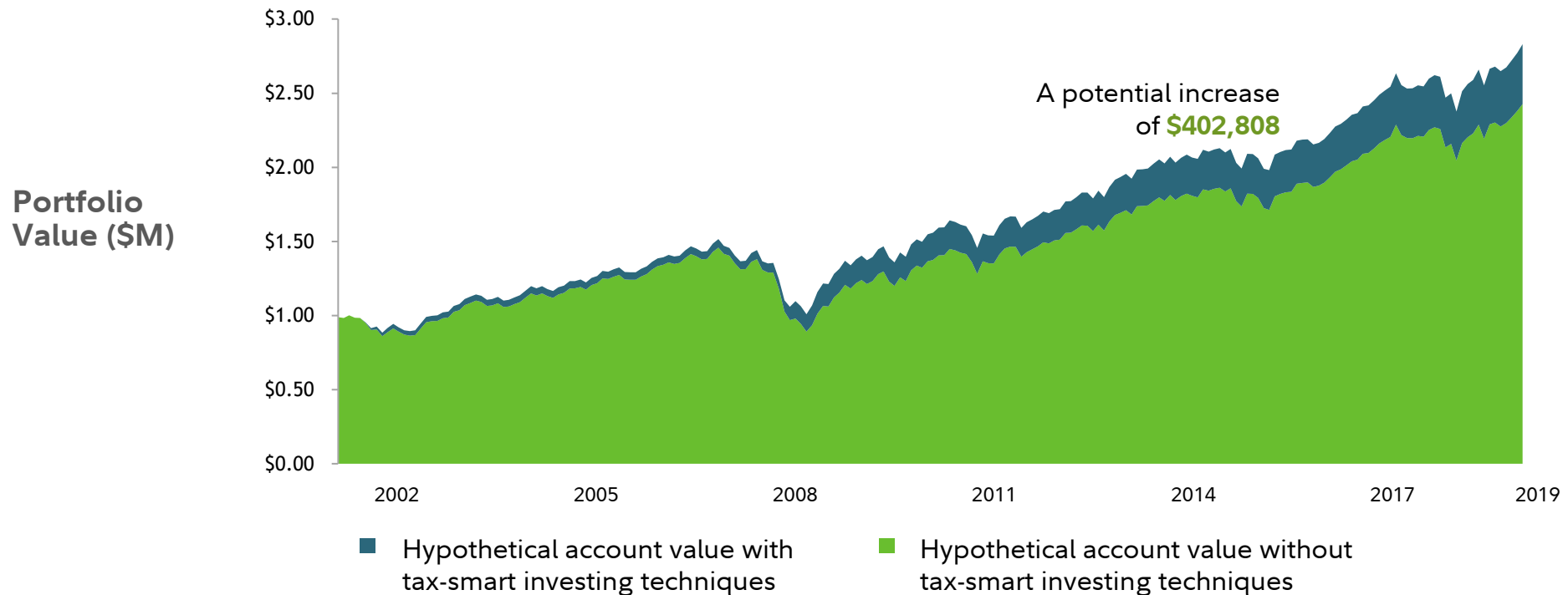
- Watch for possible changes
  - Changes in deductibility amounts
  - Changing pre-tax contributions to potentially smaller tax credit

# State taxes

- Watch for possible changes with increased budget pressures
  - AZ – top rate increased from 4.5% to 8% (\$250,000 single/\$500,000 married)
  - NJ – top 10.75% rate now applies to income above \$1 million (versus \$5 million previously)
  - Proposals
    - CA – proposed increases to current top rate of 13.3%
      - 1% on income over \$1 million (14.3%)
      - 3% on income over \$2 million (16.3%)
      - 3.5% increase on income over \$5 million (16.8%)
    - NY – 2% additional tax for wealthiest individuals (income over \$1.08 million single/\$2.155 million married)
      - NYS resident – 8.8% to 10.8%
      - NYC resident – 12.7% to 14.7%
    - PA – increase of flat tax rate of 3.07% to 4.49%
- Implications of change in work location
  - Working from home versus office
  - Working from home in a different state than primary residence

# Hypothetical Value of Tax-Smart Investing Techniques

Hypothetical cumulative value of tax-smart investing techniques<sup>1</sup>—Growth with Income Strategy\*



For illustrative purposes only.

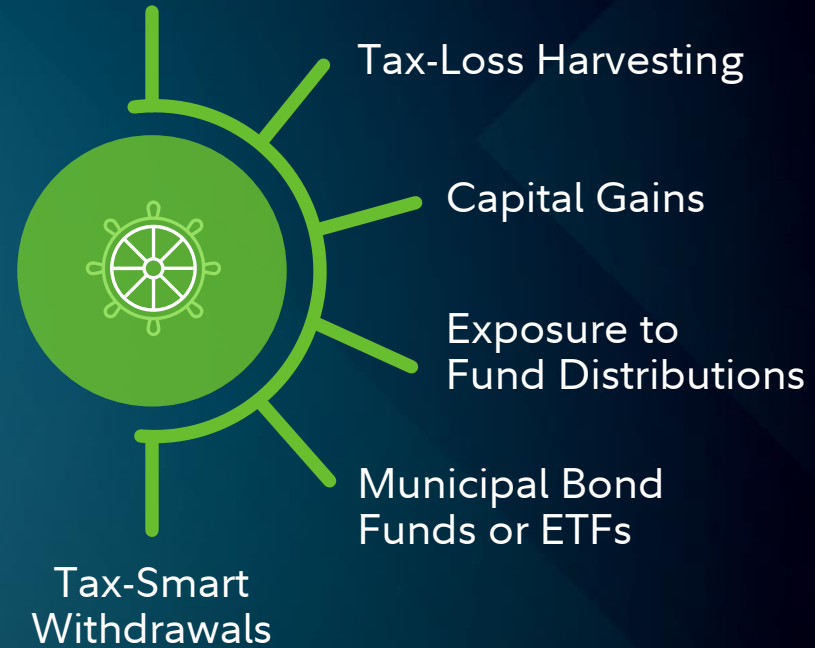
\*This hypothetical example assumes an initial \$1 million investment in a Growth with Income Strategy composite (60% stocks/40% bonds and short-term investments), from 1/1/2002 through 12/31/2019, with no contributions or withdrawals. When tax-smart investment strategies were applied, the result was an increase in account value of \$402,808.

**Based on strategy composites.** These results are hypothetical and do not represent actual value added to client accounts. Returns for individual clients will vary. Performance shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, and you may lose money.

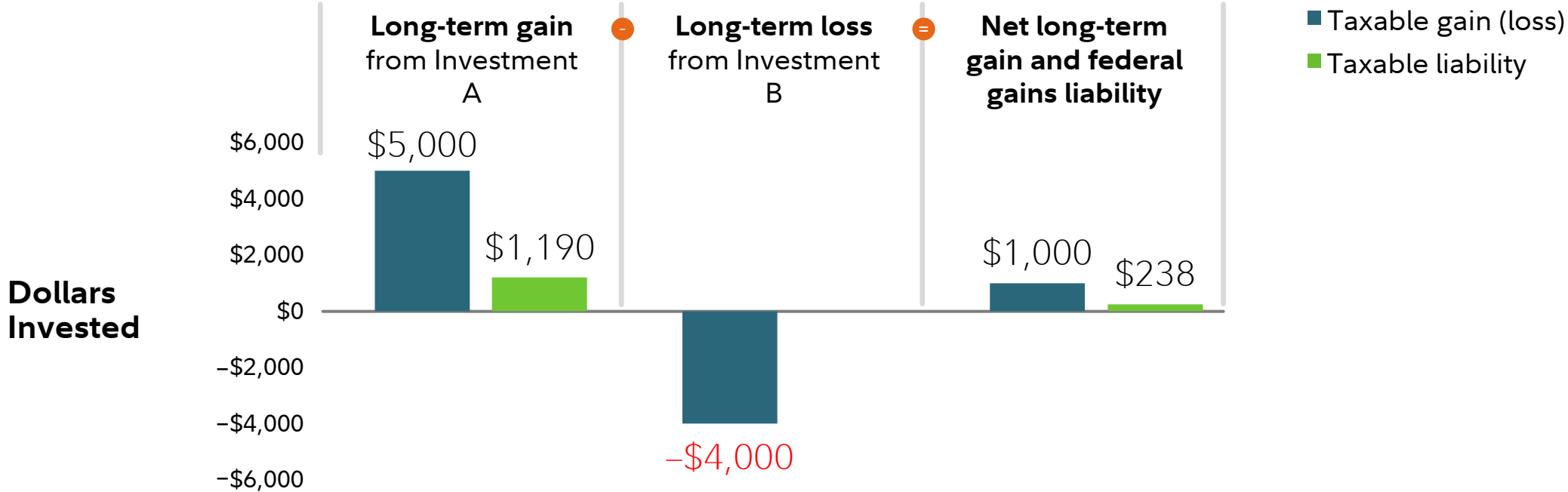
See [Tax-Smart Investing: Could Ben Franklin have been wrong \(PDF\)](#) Appendix B for information on the composites.

# Manage

Tax-Smart  
Transition Management



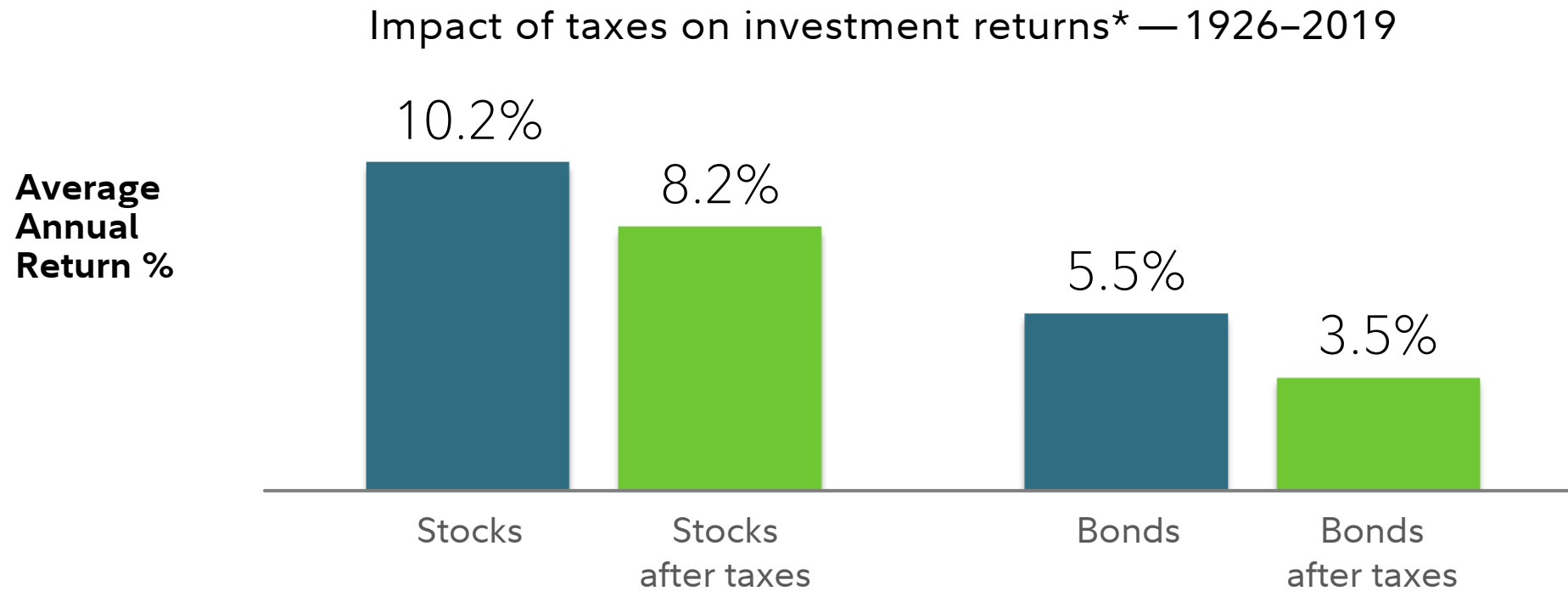
# Tax-Loss Harvesting Could Save You Money



**This illustration is for hypothetical purposes only.** Investing in this manner involves risk, including the risk of loss, and will not ensure a profit. This hypothetical illustration assumes that the investor met the holding requirement for long-term capital gains tax rates (longer than one year), the gains were taxed at the current maximum federal rate of 23.8%, and the loss was not disallowed for tax purposes due to a wash sale, related party sale, or other reason. It does not take into account state or local taxes, fees, or expenses, or the net gain's potential impact on adjusted gross income, which could impact exemption and deduction phaseouts and eligibility for other tax benefits. Potential tax savings are based on the following calculation: (Realized Long-Term Losses x Long-Term Tax Rate) + (Realized Short-Term Losses x Short-Term Tax Rate). A 3.8% Medicare surtax may be added to tax rates, if applicable to your situation. If an investor is subject to the alternative minimum tax (AMT), the appropriate AMT tax rate may also be added to the calculation.

# Taxes Can Significantly Reduce Returns

Morningstar cites that on average, over the 94-year period ending in 2019, investors gave up from one to two percentage points of their annual returns to taxes.

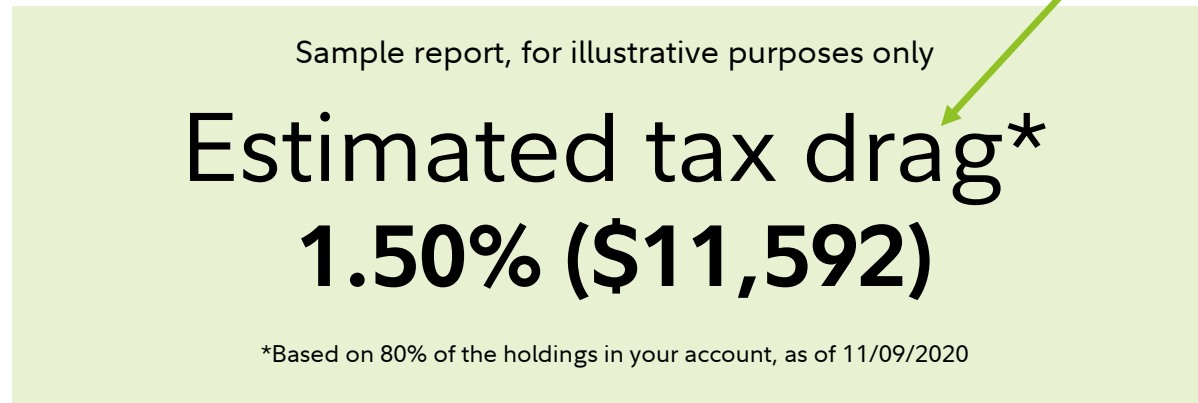


\*Past performance is no guarantee of future results. This chart is for illustrative purposes only and does not represent actual or future performance of any investment option. Stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the 20-year U.S. government bond. An investment cannot be made directly to an index. The data assumes reinvestment of income and does not account for transaction costs. © 2020 Morningstar, Inc. All rights reserved. 2/25/2020. Please see Appendix A for details.

# The Impact Taxes Are Having on Your Portfolio

Portfolio Analyzer Report highlights three pillars:

1. Risk Number®
2. Weighted Average Expense Ratio
3. Estimated Tax Drag



Taxes are having a drag on the growth of your portfolio. Our estimate above is designed to help you understand the estimated annual percentage (and dollar amount) of any federal taxes that you would pay on the dividends or capital gains that are distributed to you by the investments held in your account.

For illustrative purposes only. For the purpose of this calculation, we apply the highest marginal federal income tax rate and highest long-term capital gains tax rate (currently 37% and 20%, respectively), which maximizes the amount of tax drag reported here.

The Risk Number®, created by Riskalyze, is designed to help investors better understand the relationship between historical volatility and risk. While volatility measures and past performance cannot predict future performance, they can help investors understand the amount of volatility an investment strategy may have experienced over time.

# Disclosures

## Appendix A

Taxes Can Significantly Reduce Returns data, Morningstar, Inc., 2/25/2020. This example reflects a 94-year period from 1926 to 2019 and is based on the following data: stocks at 10.2%, stocks after taxes at 8.2%; bonds at 5.5%, and bonds after taxes at 3.5%.

**Past performance is no guarantee of future results.** This data is for illustrative purposes only and does not represent actual or future performance of any investment option. Returns include the reinvestment of dividends and other earnings. Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. The data assumes reinvestment of income and does not account for transaction costs. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning \$120,000 in 2015 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included. The data assumes reinvestment of income and does not account for transaction costs. © 2020 Morningstar, Inc. All rights reserved.

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<sup>1</sup>Tax-smart (i.e., tax-sensitive) investing techniques (including tax-loss harvesting) are applied in managing certain taxable accounts on a limited basis, at the discretion of the portfolio manager primarily with respect to determining when assets in a client's account should be bought or sold. As the discretionary portfolio manager, Strategic Advisers LLC ("Strategic Advisers") may elect to sell assets in an account at any time. A client may have a gain or loss when assets are sold. There are no guarantees as to the effectiveness of the tax-smart investing techniques applied in serving to reduce or minimize a client's overall tax liabilities, or as to the tax results that may be generated by a given transaction. Strategic Advisers does not currently invest in tax-deferred products, such as variable insurance products, or in tax-managed funds, but may do so in the future if it deems such to be appropriate for a client. Strategic Advisers does not actively manage for alternative minimum taxes; state or local taxes; foreign taxes on non-U.S. investments; federal tax rules applicable to entities; or estate, gift, or generation-skipping transfer taxes. Strategic Advisers relies on information provided by clients in an effort to provide tax-sensitive investment management, and does not offer tax advice. Except where Fidelity Personal Trust Company (FPTC) is serving as trustee, clients are responsible for all tax liabilities arising from transactions in their accounts, for the adequacy and accuracy of any positions taken on tax returns, for the actual filing of tax returns, and for the remittance of tax payments to taxing authorities.

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Generally, among asset classes stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Although the bond market is also volatile, lower-quality debt securities including leveraged loans generally offer higher yields compared to investment-grade securities, but also involve greater risk of default or price changes. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets.

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# Disclosures, continued

## Index Information:

Indexes are unmanaged. It is not possible to invest directly in an index.

Consumer Price Index: Consumer Price Index is a widely recognized measure of inflation calculated by the US Government.

Ibbotson Large Company Stock Index: Ibbotson Large Company Stock Index is represented by the S&P 500® Composite Index (S&P 500) from 1957 to present, and the S&P 90 from 1926 to 1956.

S&P 500® Index: S&P 500® Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

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