Insights Live: Tax-smart strategies for your portfolio

September 15, 2022

TRANSCRIPT

SPEAKERS:

Chris Fusé Lou Gentile Gina Gillespie Natasha O'Yang

Views expressed are as of 9/15/2022 and based on the information available at that time and may change based on market or other conditions. Please read the last page of this transcript for important additional information.

Mary Kay Leydon: Thank you so much for joining us. My name is Mary Kay Leydon. And I'm part of the Educational Events team here at Fidelity Investments. Today's webinar is Insights Live, Tax-smart strategies for your portfolio. Before we begin, I'd like to mention that Fidelity does not give tax or legal advice, and nothing we discuss here today should be interpreted as tax or legal advice.

The information we're providing is going to be general in nature and may not apply to your situation. If you have tax or legal questions about your specific situation, we encourage you to talk to your tax advisor or attorney. With that covered, let's go ahead and get started.

I'd like to introduce our moderator, Lou Gentile. Lou is a regional vice president with the Advanced Planning team at Fidelity Investments. Thank you so much for joining us, Lou.

Lou Gentile: And thank you, Mary Kay. And thank you to our viewers for tuning in and submitting questions during registration. Those questions always help us shape our discussion. Taxes are an area of concern for many of us, most of our clients, especially when markets are volatile and even more so for our clients who are on a fixed income. In this event, our panel of professionals, they will offer some ideas and strategies designed to help you keep more of what you earn.

Topics today will include tax-smart investing strategies, like tax-loss harvesting as well as managing capital gains and mutual fund distributions, tax-savvy approaches to Roth IRA conversions require minimum distributions, commonly known as RMDs, and estate planning, and smart charitable giving opportunities for greater impact and potential tax savings. It is my pleasure to introduce our panelists for today.

Gina Gillespie, Vice President, Financial Consultant, Fidelity Investments; Natasha O'Yang, Regional Vice President, Fidelity Charitable®; and Christopher Fusé, Portfolio Manager, Strategic Advisors. Christopher manages many of our after-tax managed accounts.

All right. So let's get into it. Tax strategies are typically built and informed around what's happening in the markets. We thought it would make sense for us to start here with an overview of how the markets look today. Christopher, given your role, what are your thoughts on current market conditions?

Christopher Fuse: Great. Thanks for the question, Lou. And thank you, everybody, for joining us today. So in my role as a portfolio manager, my responsibilities include determining the asset allocation for our taxable managed account clients. And I've spent 31 years at the firm. And in those years, I've spent a lot of time helping develop the tax strategies that we use in our managed account client base.

So, to give a little bit more of an input on where we are right now, I know we spoke before Lou. And we were trying to come up with a one word that really describes where we are in the marketplace. And the only word we can come up with is volatile. It's a volatile time right now. We know everybody on this call feels it. It's been a painful year for us, for all of us. Both stocks and bonds have fallen. And that's not something that happens typically.

So, what's driving the volatility? And really, it's a push and pull between a strong domestic economy and high inflation. So, the good news side of this is that the economy is growing. There's good corporate earnings, unemployment is low, there's lots of jobs available. The average consumer, the banks, the average companies out there are all in a very strong financial space but there's stubbornly high inflation.

And the response from the Federal Reserve is to raise interest rates to cool that inflation. Put it in a backdrop where they're slowing global growth, there's rising risks of a recession across many regions around the world due to higher energy prices. That's given a very complex situation. And remember, markets are always trying to seek to anticipate the future and price this into securities.

And for much of the summer, stocks rallied as the market participants really anticipated that the Fed—Federal Reserve—may ease their pace of rate hikes sooner than later. And recently, though that has changed. Stocks have dipped again as it's become a bit more clear that the Fed will likely need to continue to raise rates to tackle high inflation.

And historically, higher rates, which are designed to slow down an overheated economy, tend to stifle some of the big-ticket spending by both consumers and businesses. That tends to lead to weaker corporate earnings and eventually higher unemployment.

LOU: No doubt, Chris, it's been a volatile year so far with the markets, even more so in the last few days with the recent CPI numbers that have come out. And I'm sure this has left many clients out there feeling anxious about whether they're on track to meet their financial goals. Gina, given that you speak to clients on a daily basis, what are you hearing?

Gina Gillespie: That's a good question, Lou. A little bit about my background: I work within our Investor Center. I'm one of our financial professionals there. And I've been in our Burlington, Massachusetts, Investor Center for over 10 years. Every day I meet with three to four families.

And so if I had to think of one concern, question, thing that continues to come up is, should I do anything right now? Should I just stay put? We've seen volatility. Chris, you brought up that really—we've seen volatility in accounts. And as we look at pricing and you look at your statement, should I just stay put? Right now is a really good time to do inventory on your accounts. I like to call it inventory because it's an ability for you to look through what you have. We call this asset location.

Are the investments that I hold in each of my accounts appropriate? And it's a great time. It's not an answer. It's not the same answer for everyone. So I always encourage you to go to your Investor Centers or talk to your financial professional to see if there are things that you should do today to build efficiency in your plan.

LOU: Thank you for that, Gina. Let's get to some of the specific tax strategies you'd want to consider in times of market volatility. For example, tax-loss harvesting. We hear that word thrown around a lot. Christopher, can you explain what tax-loss harvesting is and how your team executes and approaches it?

CHRISTOPHER: Sure, it's basically making lemonade out of lemons here. Sometimes one of your investments that has lost value can still do some good or maybe just not be quite so bad. The strategy that changes an investment that has lost money into a tax winner, we call that tax-loss harvesting. And it may be able to help reduce your taxes now, and even into the future.

So tax-loss harvesting allows you to sell investments that are down, replace them with reasonably similar investments, and then offset realized gains with those losses. The end result is that less of your money goes to taxes, and more of it may stay invested and is working for you. So an investment loss can be used for a couple of things. The loss can be used to offset investment gains, of course. But it can also be used to offset up to $3,000 of income for individuals and joint filers or $1,500 for married folks filing separately. And that can happen every year.

An added benefit, of course, from tax-loss harvesting is that once your gains are netted out and you have written the appropriate amount off of income, any remaining losses can be carried forward to future years, as long as the life of the investor. Now, the most important piece though, is that tax-loss harvesting is not calendar dependent from our standpoint. We look at this every single day. So it's not something that we look at just at the end of the year or at the end of every quarter. We look at every day for opportunities in client portfolios to make that lemonade out of those lemons and to really help the clients with their tax situation going forward.

LOU: Thank you, Chris. Gina, is this a strategy your clients might consider as well when you're speaking to them?

GINA: Definitely. Christopher, you just gave a really good overview of what tax-loss harvesting is. And it's tricky. It can get really difficult to actually execute. Most individuals will look at the end of the year if there are any losses, where you mentioned it's not calendar dependent. We see volatility all throughout different times. So individual investors, this is definitely a strategy in which they like to execute. But I would just say it's not an easy thing to do on your own.

LOU: What about other strategies investors might want to consider if they have investment losses? What about those?

GINA: Yeah, so we talked a little bit about tax-loss harvesting. That's a great one. I think a big thing that we talk through today is what about years that you have losses or that maybe your income could be lower? And we'll talk through that. I think that's when I like to talk through with clients of efficiency of plans. What can you do to run an efficient plan? And that's something I get really excited about as I sit with individuals.

Everyone's plan is different as you come into the office or you sit down with us as financial professionals. So in years that you find that you could have losses or lower income, I think one very critical or important idea to think through is, should I do a Roth conversion? It's a topic that a lot of people come to and ask questions on. And a Roth conversion is simply, should I take money from a traditional IRA, a rollover IRA, a 401(k), a 403(b), a workplace plan? Should I take tax-deferred assets, pay the tax on them, again, in a year that you could have a lower tax liability, and move them to a Roth? And a Roth IRA being tax-free.

As you think about this idea or strategy, oftentimes clients will sit down and say, I've heard that maybe this isn't appropriate for me. Maybe they read one thing. But I think, again, it's really dependent on your plan. If you're retired and your income is lower for a period of time, maybe really thinking through how to build that efficiently. Fidelity's continued to add a lot of tools to our toolbox. And at Fidelity we had a retirement strategies tax estimator we're adding to our toolbox that you can meet with your financial professional. And it will sit down and say, should I do some of these things? Where should I pull assets from efficiently?

LOU: Thank you, Gina. Why don't we switch gears a little bit and look at this through a charitable lens. Natasha, hi. How are you?

Natasha O'Yang: Good. I'd love to share a little bit today. I joined the Charitable team in 2019 and spent some time as a financial professional myself. My current role with Fidelity Charitable® now is to work with financial professionals all over the West Coast to help them and their clients create plans that create the largest impact toward their giving.

So, recently, we've seen a lot of anxiety around the market and inflation change donors' perspective about their personal financial situation and their motivations to give back. So we've seen this firsthand here at Fidelity Charitable®, being that we're the nation's largest donor-advisors fund sponsor and largest grant maker. Our donors have already made a record $4.8 billion in grants in the first half of this year. And not only this, we also have some research coming out next week that shows nearly 60% of donors are considering giving more to charity this year in light of current market conditions.

LOU: So given the market volatility, what tax-smart strategies around charitable giving do you think are advantageous for our clients out there?

NATASHA: I have so many. But we'll keep it to three today. So the first ties into what Gina had mentioned around Roth conversions because Roth conversions can also come with tax implications. So charitable donations can actually manage some of those implications. This can be particularly advantageous for those who are already itemizing their taxes because a charitable gift could potentially offset the entire conversion.

The second thing are capital gains. For folks that are rebalancing their portfolio right now, or even considering transitioning into a strategy that Chris had mentioned with his team, a charitable donation can help offset those tax implications and potentially avoid maybe all of those capital gains altogether as well. But the last thing is a big consideration when it comes to a volatile market is considering how and when you're doing your giving.

Most people are doing direct giving toward charitable causes. So that might be through a social media campaign, directly through a charity's website, or by writing a check. Most people are also doing their giving in the last couple of months of the year. So, of course, I don't have my crystal ball. I have no idea where the market is going. But what I do know is if donors consider utilizing a giving vehicle, like a donor-advised fund or a private foundation, they can have a higher level of control of their giving. The reason being is that when you're making a contribution into a giving vehicle, you're immediately eligible for that tax deduction today because those dollars have already been earmarked for charitable giving.

Then with that giving vehicle you have the flexibility to make those distributions either immediately or over time. So if you already know you're planning on doing some giving this year, you already know potentially which asset you're looking to give, your gift today into a giving vehicle can lock in today's fair market value deduction. And then you can still do your normal giving at the end of the year without having to worry about the fluctuations of the market.

LOU: We spoke about tax-smart strategies in times of market volatility, right? But these strategies are also very important when the market's on the rise. That's when, for example, you'll be more likely to have capital gains on mutual funds you hold. Christopher, what do investors need to know about taxes on their capital gains?

CHRISTOPHER: It's a good point, Lou. Markets do go up at times too. We don't always remember that. So when we're selling investments in our professionally managed accounts, we generally first look to sell the positions that you've held for a longer time. That allows us to take advantage of the longer-term capital gains rates.

But that's kind of the simple piece. There's a lot of other pieces that we want to look at too, such as your current marginal tax rates, what your expectations are for the security from a performance standpoint, what types of embedded gains that you have, how long that you've held it for. Maybe it makes sense to trade before a distribution. Also, to dovetail on other conversations here about making charitable contributions for appreciated securities.

All of these things that we put together can be used to potentially lower a client's tax bill. So it is the time of year now where we are starting to take into consideration the distributions that mutual funds may place at the end of the year. We're taking a lot of public information that's just starting to come out now and starting to incorporate that into investment decisions for our clients.

So as the year goes on, we certainly want to make sure that if there are large distributions in any one of our client positions, we certainly don't want to buy them between now and the end of the year. And then we'll certainly look to see how we can take that information to see what we can do with those positions in client portfolios if there is going to be a distribution.

LOU: Gina, in your experience, how do taxes affect considerations around where do you put these assets? Where do they go? What different accounts? Maybe you could go into a little of that.

GINA: Yeah, I'll go through some examples of things if you're looking through your accounts doing inventory. We talked about that earlier, in the last couple of years, generally in the fourth quarter of the year, when you get a lot of these capital gains. So again, I think it's really important as an investor not to have too many surprises.

So what is a tax-efficient investment? And efficient investments are ones you would put in a taxable account. So let me give you some examples. Index stock portfolios, index-based portfolios, or they call them exchange-traded funds, can be very efficient. Municipal bonds oftentimes can be efficient. Or holding a security or a stock for appreciation for long term, so holding those can be efficient investments.

Inefficient investments, things that may give you a good amount of capital gains on an annual basis, are things that you could hold in a taxable account. Or I'm sorry, a tax-deferred account, not a taxable account, a tax-deferred account. And things that could be actively managed mutual fund stock portfolios, or actively managed mutual fund portfolios, those can give off a good amount of capital gains each year. Depending, they may.

Others are taxable bond portfolios and real estate investment trusts, those are also called REITs. Those are some examples. So if you're looking and doing inventory through your accounts, those are things that you can do with your financial professional.

LOU: Natasha, as we turn back to charitable [INAUDIBLE], maybe you could speak to tax-smart strategies around giving. Has anything changed in light of recent tax reforms?

NATASHA: Oh, absolutely. One strategy that has become more and more popular post-tax reform is called bunching. Bunching is essentially bunching up, frontloading, several years of giving into a single year to either maximize the tax savings in a high tax year or to help someone surpass the standard deduction now that state and local taxes are now capped at $10,000 and most deductions have been done away with.

The charitable deduction is now the one lever donors have full control to dial up and down. To take this a step further, many donors use the bunching tax strategy with their donor-advised fund because it allows them to recognize a larger tax deduction when they need it most, but again, give them that flexibility to make that donation over time. So to give you an idea of what that looks like, we'll go through a quick example here.

If you have maybe a large bonus or equity compensation award this year that puts you in the highest tax bracket, if you typically give $10,000 per year, but because this is a high tax year you're considering this bunching strategy, and you're thinking, I'm going to go ahead and do five years of gifting this year. So we're going to do $50,000 in gifting this year. But again, if we're accompanying this or coupling this bunching tax strategy with a giving vehicle, like a donor-advised fund, I'm not saying let's give this $50,000 gift away, call it a day, I'll see you in five years.

The difference is if you're utilizing that giving vehicle, you're recognizing that tax deduction, that larger contribution of $50,000 this year. But you still have the flexibility to make your normal $10,000 gifts each year. I'm going to go ahead and add one additional thing. This might be running a little bit away from tax reform here, but this strategy also has an additional application.

So for pre-retirees that are looking to maximize their giving as well, if you're close to retirement, you're probably making the most money you've ever made. You're probably in the highest tax bracket you've ever been in. And when you retire, your income might be a little bit lower in retirement. So this same strategy with bunching and utilizing that donor-advised fund or giving vehicle can really help folks create a nest egg to get a better deduction now while your income is higher and then prefund some of that giving in future years because, for the most part, at least in my experience, and for a lot of the folks that I've been talking to, just because you stop working doesn't mean you want to give up gifting just because you retire.

LOU: So for the folks out there who want to do these types of transactions and execute these types of transactions, what are the common pitfalls or mistakes you see donors make?

NATASHA: Yeah, absolutely. I would say the most common kind of pitfall or mistake that we see is when a donor is utilizing cash or cash equivalents with their gifts. I know it's the easiest thing to give. I know a lot of us are creatures of habit. We just do this routine each year.

But I think it's important to understand that cash and cash equivalents are by far the most tax-inefficient gift because really, it's an after-tax asset. Donors should really be considering a long-term appreciated asset instead because not only are they still eligible for that charitable deduction, but they're also able to minimize their capital gains associated with the growth of that asset. So really, depending on what you give, you can also benefit from bringing down concentration risk if you have maybe concentration in company stock.

And then something else to keep in mind as well is wash sale rules don't apply if you're gifting an asset. So if you really do love that asset and you anticipate to buy it again, again, wash sale rules don't apply.

Something else I'd like to add when it comes to the asset to consider giving is that we've thought about our checkbooks. We've thought about our portfolios. I think it's important to think outside of the box as well. Things like private or restricted stock, real estate, cryptocurrency, alternative investments, private equity, I can go on. I think it's just important to highlight that it's likely that you own an asset outside of, again, our checkbooks and your portfolio. And the vast majority of wealth in the US is privately held. So consider those other assets. I mean, regardless of what you're considering the fund for your charitable donations, it's important to have a conversation with your financial and tax professional just to make sure we're doing our due diligence there.

LOU: Well, these are all terrific strategies. We've had a lot of questions come through from our clients who are in or close to retirement about required minimum distributions and the tax impact of those. So many clients have asked, how do we reduce taxes on those required minimum distributions? So Gina, maybe this is something you want to add some clarity and detail around.

GINA: Yeah, I would love to do that. Most of my clients, even if they're just approaching retirement, they also have these questions. They don't just wait until after they're retired. So I think these are all good conversations.

Earlier I talked about Roth conversions. And so when you talk about minimum required distributions, why is a Roth conversion even a part of that? And it can be because a Roth, you don't have to take minimum required distributions from. So I wanted to start there. So one way to reduce is what we talked about before, doing those Roth conversions. Again, it's a bucket of money you don't have to pull anything from.

In 2020, the government passed something called the SECURE Act. And the SECURE Act made a couple of adjustments or changes. One change was minimum required distribution age went from 70½. So if that age sounded familiar—I don't know what it is, 70½—it changed to 72. So now age 72 is when you have to take minimum required distributions. Why is that important? How does that have anything to do with anything? For a couple of reasons.

So one of the things they didn't change is that at 70½ you can give a portion of your retirement assets from traditional IRAs, rollovers, to a charity. So prior to when the government makes you take money out at 70½, you can give something called a qualified charitable distribution. So you can start taking some of those deferred accounts and give them to charities already. So again, that starts at 70½. And it's very calendar dependent. So you have to make sure that the calendar is ticked that you turn 70½ to do it. I always want to make sure you know that piece.

The other thing to think through of why individuals who really think about the SECURE Act as important, it also changed how your beneficiaries, non-spouse—so your heirs, your non-spouse beneficiaries—inherit these accounts. So minimum required distributions for an individual starts at 72. And it spreads out over your lifetime. And if it passes to a spouse, it spreads it over their lifetime. But if a non-spouse beneficiary inherits these assets, they have to exhaust them now within 10 years. That was a change. So I have a lot of clients and individuals say, well, the point of me putting in these tax-deferred vehicles to pay taxes small pieces over time. And if a child, an heir, anyone inherits them, now they have to take it out much faster. So thinking about how efficiently you want to pay the taxes over your lifetime, as well as your heirs, are a part of it.

So I think Roth conversions comes back in to this as a really appealing piece of a plan for clients.

LOU: I'd like to circle back on the QCDs. Natasha, can you add some more detail around those for us and for our audience out there?

NATASHA: Yeah, happy to add some color there. There are definitely some caveats when it comes to that qualified charitable distribution. Something to keep in mind is that they are only eligible for IRAs. So this is not something that you can consider with a sponsored plan like a 401(k) or a 403(b). There's also no minimums to qualify.

Something to keep in mind, there is a maximum of $100,000 per individual per year. The distributions also have to go directly from that IRA to that end charity, cannot cross your hands. If you do it correctly, the advantage to that is that you're able to avoid the income taxes associated with that distribution while also fulfilling a portion of your required minimum distribution.

I also want to highlight a key difference when it comes to this qualified charitable distribution and I guess what you consider your normal charitable deduction. A qualified charitable deduction is above the line deduction, which means it actually lowers your income calculation because you're avoiding that income altogether for that required minimum distribution. Whereas, again, that normal charitable deduction is a below-the-line deduction, meaning it simply offsets the income you've already recognized.

So of course, there's going to be reasons why you might pick one over the other. I will say, for the most part, I think our knee-jerk reaction is typically to go with that qualified charitable distribution. I think overall it's always best to consult your financial professional and tax advisor before deciding one of these strategies because what may seem like a great opportunity to lower your tax obligations might not be the best decision for your overall portfolio.

So just remember, we always have to balance those advantages of tax strategies with the overall health and composition of your portfolio.

LOU: Yeah, that's great. When we're thinking about retirement income, there's always an impact on Medicare costs too, I'm assuming, right, Gina? Why don't we to speak to that?

GINA: Yeah, I think one of the bigger surprises sometimes clients will have if they haven't really thought about how Medicare costs come into play with their income—Natasha, I loved how you said above-the-line item taxes, how you think about those things. Medicare is affected by this. So at 65, you can go on to Medicare, the government-based health care plan. And it's not free. There's many parts to Medicare, Part A, B. There's supplements. There's prescription coverage, which is called Part D sometimes.

And some of these portions are affected by your income. So example, part B of your Medicare, it looks at what your modified adjusted gross income was two years prior, so two years prior. So right now we're in 2022. We'd be looking at your income in 2020. So when you're thinking about taxes and you're thinking about how you try to maybe be efficient with your taxes, one thing to think through is that Medicare, that number can be adjusted.

Part B can start around $160 a month. But it can go all the way over $500 if your taxes were much higher two years prior. Each year, they look and reassess. And so it's something to think through as you're thinking through how to be efficient with just paying taxes. Qualified charitable distributions while you're taking these minimum required distributions can help to lower that income number. And it helps to lower it for Medicare too.

So it's really something I talk to clients about. Let's work with our tax professionals to figure out, should we be efficient in how we give? One thing to think through, what if you're still working today? And you think, wow, Medicare numbers or these things, they can be really high. Where am I going to pay? Is there an efficient way that I can save today for medical expenses later? If your employer plan, if you have a health savings account, a health savings account's called an HSA. You may have heard of those.

Those accounts you can put money in. It's a tax deduction. So you can put money in each year. If you're married or if you're a single tax filer, the numbers are different on how much you can add each year. And a health savings account you can invest. You don't have to use it each year. You don't exhaust the account. You can invest it for later.

And when you're in retirement, you can use to help pay for some of those medical expenses. And to think through those health savings accounts, it comes out tax-free. So if you have that as an ability, and you're still working, and you want to save for health care because that's a consideration that those costs could be higher later, it could be a consideration of a health savings account.

LOU: Thank you. Christopher, when people are out there and they're thinking about retirement income and how to generate income in retirement from their portfolios, it's always a consideration as to what you're selling, how do you treat redemptions? So for you and your team, how do you treat those redemptions for client portfolios?

CHRISTOPHER: Yeah, that's a great question. I know we've spent a lot of time thinking of the retirement side of the ledger. But the taxable side, we've talked about how we do tax management in the accumulation stage. But the withdrawal stage is just as important.

And so we mentioned before, one of the easiest things that we can do for our clients is look at the difference between selling something at a long-term gain or a short-term gain. So when we look at selling things on a long-term gain, at this point in a client's life, long-term gains, the rates are usually going to be much lower than that of selling something in a short term. So we want to certainly focus on that piece.

We may sell funds, again, before they pay a distribution. But one of the tricks that we use is we look at dividends and distributions from our investments. We don't actually reinvest them back into the securities. We actually keep them in some sort of a cash account, which allows us the flexibility to, if a client's looking for monthly income or quarterly income off of these portfolios, to allow us to kind of replenish that account as the monthly income goes out.

This is all done while still keeping the asset allocation piece in line with the goal for the client. And I think that's really one of the most important pieces is that you're able to do a number of different things at one time looking at the pre-tax, looking at the risk, looking at the after-tax view of the client. But again, I think the strategies that we use to help accumulate client wealth is just as effective as withdrawing when clients are using these assets to withdraw for their goals also.

LOU: Switching gears a little and thinking about inflation and what's been going on over the last 12 to 18 months, all over the news there has been policy changes and legislation. Christopher, what's going on in Washington? What are your thoughts on midterm elections and the recently passed legislation, the Inflation Reduction Act? And I say that that way because there's been just a lot of news about it. But how are we repositioning our managed portfolios and managed accounts around these events?

CHRISTOPHER: Sure, it's a great question. And I want to make sure that people understand. We call it the IRA. The IRA is not your individual retirement account. It's the Inflation Reduction Act. So there have been a number of things that have been passed recently in Washington that would be suggestive of some modest support for future growth in the US. So it's not just the IRA. It's other things like the Infrastructure and Investment and Jobs Act, the CHIPS and Science Act, the student loan forgiveness.

Those have all passed in the last couple of quarters. And that will provide some spending to the economy. But the numbers on those are not very significant. They're certainly large, but they are actually spread out over a number of years. And because of that, it really doesn't have a huge impact on economic growth. So short answer is that we're not really doing a lot in terms of making investment decisions based on that. It is a slight tailwind to economic growth, but really is just that.

So you did ask about the midterm elections. In 53 days there is an election coming up. Sure it's going to be a fun one to watch here. But the way that we're looking at things right now, the analysis that we're seeing is that it still looks like we're going to be headed into a divided government. So when you look at the numbers right now, there's a strong chance that the Republicans will take over the House. The Senate is still up for grabs.

But of course the executive branch is still going to stay as is. A divided government, what does that mean? It sounds kind of scary, but really what it means is that there's not a really big chance for major legislation to pass, so really not a big chance for any new taxes coming up. You're probably going to see a lot of debt ceiling fights coming up, as we've seen in the past. From a spending standpoint, really none to very little new fiscal spending.

But it is something that we do want to watch. And this is what we do for every election cycle. We will spend a lot of time in the next 53 days seeing how things are panning out and to make any adjustments that we have to if those numbers do change.

So midterms, what does that mean for the markets? Well, if we look back to 1950, midterm elections have provided really no discernible clues on the future of stock returns. If you look at the two years following the midterm elections, the S&P, which is US stock average, is up about 12% or so. Whether that's all Republican, all Democrat, it really doesn't matter. It's not that far off from the average returns. So I think when you look at the midterms, it historically has not given you any really great indicator of what things are going to do. Of course, every time is different. Have to throw in the past performance is no guarantee of future results. But staying invested, staying the course, keeping a disciplined investment process, I think that's what's really going to help clients reach their goals.

LOU: Thank you. We haven't spoken about estate planning and estate taxes. And I'd like to spend a couple of minutes doing that now. There are a number of different strategies out there from low complexity to very sophisticated and high complexity. All used to help preserve family wealth and lower estate taxes. And clients should always drill down more in depth with their financial professionals and their tax attorneys. But Gina, when you speak to clients, what's one strategy that you've seen over and over, time and time again, that has success with clients?

GINA: One that's really common, most people who are listening to this could think about or maybe they do, how do you want to leave money to or a legacy to your heirs? It's always a question I ask. What are the goals of these assets, the family wealth that you've accumulated? And as I think through, there's two ways to leave well. Sometimes it's at the end of your life. Or people do it during their lifetime.

So one really common and simple way is through annual gifting. So annual gifting limits now in 2022, it's $16,000 for a single tax filer, $32,000 for a married couple who are filing their joint returns. And you can give those dollar amounts to each person or someone that you love. So any individual you can give $32,000, if you're a married couple, to each of your children, cousins, loved ones, heirs, whoever it is that you want to help to reduce your estate today. There's no estate tax or gift tax that you have to pay on those. And so that's one very common way. You also retain some control, right? You can choose to do it in some years and not others.

Another is college savings account, 529 accounts. 529 accounts you can accelerate gifting. So if you are an individual who wanted to open up a college savings account for commonly a grandchild or someone who's younger as a beneficiary, you can still retain the control of that account and gift up to five years.

So if you're a married couple you can take that $32,000, you can multiply it by five. That's $160,000. And you can accelerate that and put that in one year today. It gets it out of your estate, but you can, again, still retain some control. Those are some common ones, Lou, I think very easy common idea.

LOU: The annual gifting, if done habitually year after year over a period of time, from what I've seen, can transfer a tremendous amount of wealth out of the estate, gift and estate tax-free. I just want to remind the audience out there that even though rates have ticked up, they still are historically low for some of those gifting strategies, like grantor retained annuity trust, interfamily loans, and charitable lead annuity trusts.

Those rates are still low. The 7520 rate, which was a hurdle rate for charitable lead annuity trusts and grants to retain annuity trusts, is 3.6%. And the AFR rate for September for interfamily loans is around 2.93%. So those September rates are still historically low. And Natasha, what about charitable gifting to lower estate tax?

NATASHA: Yep, absolutely. We'll circle to back to some of the vehicles that you had mentioned. But I think when it comes to charitable planning and legacy planning, I think it's important, as we mentioned earlier, when we're taking consideration which assets make the most sense to contribute. So when it comes to your estate plan, it's important to also try to prioritize pre-tax assets where we can. So that would include plans like your 401(k), your 403(b), traditional or rollover IRAs. Those would have preferential tax treatment for leaving to charitable organizations because charitable organizations will be exempt of that taxation you're passing along versus if you were passing those assets to people.

So just a quick example here. If I were to say I wanted to leave a $100,000 IRA for Lou here, as an individual inheriting that he would also inherit the income tax associated with that versus if I gave that $100,000 IRA to my favorite charity. They would be exempt of that and they would be able to really maximize the gift that I'm leaving them. And of course, if I wanted to leave Lou something, I would leave him something from my taxable assets where he could get a step-up in basis.

So again, it's important to understand the sourcing of the asset when you're considering giving with your legacy plan. I also think it's important to understand that there is an unlimited amount that folks can leave toward charitable causes. So if you are concerned about estate taxes, I know the current estate tax exemption is $12.06 million. I hope everyone's having a problem with estate taxes, of course.

But there is an understanding that there is a sunset to the tax reform in 2025. So that estate tax exemption number will be dropping down to the pre-tax reform number plus inflation. We're not exactly sure what those estimates are going to look like. But I think that's just a reminder to update your estate plan as legislative changes happen. Update your estate plan every several years to ensure that your wishes really align with your legal documents.

But of course, let's go ahead and circle back to some of those giving vehicles that Lou had touched on. So when we're thinking about giving strategies, I think it's also important to understand that just because you are allocating these dollars for charitable causes, it doesn't mean that you have to make that direct distribution right away. If you're utilizing a giving vehicle, that could let you strategize and prioritize different goals and different purposes for those assets.

So I'm going to go ahead and quickly touch on charitable trusts that Lou had mentioned. So charitable remainder trusts and charitable lead trusts are a little bit unique than some of the vehicles we've already touched on. They're actually income-generating. So a charitable remainder trust is a really great tool for folks that are looking to leave assets ultimately to charity—the remainder of the assets will go to charity—but are looking for financial security to create an income stream for themselves or a dedicated beneficiary for the life of that trust.

And then on the opposite end of that spectrum for a charitable lead trust, that's going to go ahead and generate an income stream to fund your giving through the life of the trust. And it can be a really great solution as a transfer method to assets to your heirs.

I'm going to go ahead and circle back to donor-advised funds and private foundations, also a really fantastic tool to utilize to say, hey, I want to designate certain dollars for charitable purposes. And I may want to go ahead and consider leaving that account for my heirs as a way to really pass on that tradition of giving and really allow assets to be allocated toward charitable causes and be tax-efficient when we're thinking about the estate planning piece.

LOU: So thank you, Natasha, for that. Well, we've come to the end of our discussion for today. I just want to extend a huge thank you to all of our panelists for their insights. This was a really great discussion.

If you're interested in learning more about tax-smart investing or other financial planning topics, subscribe to Insights from Fidelity Wealth Management for exclusive invitations to future wealth management webinars and access to our weekly newsletters for timely news and content from a top Fidelity thought leader. I'm Louis Gentile. Thanks for being here. We hope to see you soon again.

Disclosures

Investing involves risk, including risk of loss.

Past performance is no guarantee of future results.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

US stocks grew an average of 12% in the 24 months following midterm elections; US stock performance represented by S&P 500 Index total return from 1/1/1950–12/31/2020. Returns include reinvested dividends. Source: Bloomberg Finance, LP as of 9/1/2022.

This presentation is provided for informational use only and should not be considered investment advice or an offer for a particular security. Views and opinions expressed are as of 9/15/2022 and may change based on market and other conditions.

This information is intended to be educational and is not tailored to the investment needs of any specific investor. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

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.

Digital assets are speculative and highly volatile, can become illiquid at any time, and are for investors with a high risk tolerance. Investors in digital assets could lose the entire value of their investment.

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. Assets contributed may be sold for a taxable gain or loss at any time. 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.

Fidelity advisors are licensed with Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser, and registered with Fidelity Brokerage Services LLC (FBS), a registered broker-dealer. Whether a Fidelity advisor provides advisory services through FPWA for a fee or brokerage services through FBS will depend on the products and services you choose.

Fidelity Charitable is the brand name for the Fidelity Investments® Charitable Gift Fund, an independent public charity with a donor-advised fund program. Various Fidelity companies provide services to Fidelity Charitable.

The Fidelity Charitable name and logo, and Fidelity are registered service marks of FMR LLC, used by Fidelity Charitable under license. Giving Account® is a registered service mark of the Trustees of Fidelity Charitable. Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. 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.

"Giving Account" is a registered service mark of the Trustees of Fidelity® Charitable.

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 US equity performance.

Optional investment management services provided for a fee through Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser and a Fidelity Investments company. Discretionary portfolio management provided by its affiliate, Strategic Advisers LLC, a registered investment adviser. **These services are provided for a fee.**

Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, Strategic Advisers, FBS, and NFS are Fidelity Investments companies.

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

Other than with respect to assets managed on a discretionary basis through an advisory agreement with Fidelity Personal and Workplace Advisors LLC, you are responsible for determining whether, and how, to implement any financial planning recommendations presented, including asset allocation suggestions, and for paying applicable fees. Financial planning does not constitute an offer to sell, a solicitation of any offer to buy, or a recommendation of any security by Fidelity Investments or any third party.

The Fidelity Investments and pyramid design logo is a registered service mark of FMR LLC.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

1047362.1.2