TRANSCRIPT

Do you want to keep more of what you earn in 2021 & beyond?

Presenters: Christina Anderson, Justin Bailey, Christopher Fusé, Alice Joe

Justin Bailey: Hello everyone, and thanks for joining today's client event. My name is Justin Bailey, I am a regional vice president for Fidelity Investments, and I've been asked to moderate today's event. Today's discussion will be on tax-efficient investing, posing the question, "Do you want to keep more of what you earn?" This event we will be joined by three Fidelity professionals, their bios are up on the screen, but before we get into that, please grab a pen or pencil and have a piece of paper ready because there will be some points that you're going to want to jot down on the topic, and maybe questions, and make sure to set up some time with your financial consultant with Fidelity to help answer some of those more specific topics and discussion points that have come to your mind during this discussion. I want to remind everyone that Fidelity does not give tax advice. Nothing we discuss today should be interpreted as tax advice, and the information we are providing is going to be general in nature and may not apply to your situation. If you do have tax questions, though, that will be specific to your situation, we always still encourage you to talk to your tax advisor. So, with that, let's go ahead and jump in and introduce our panelists. First, I want to introduce everyone to Christina Anderson. Christina is a vice president in our Private Wealth

Management group. She directly works with Fidelity's clients and advises them on their families with wealth planning strategies on a daily basis. She's been in the industry for over 15 years and is a Certified Financial Planner. Second, let me introduce you to Chris Fusé. Chris is a portfolio manager with Strategic Advisors, LLC. Strategic Advisors is a registered investment advisor and a Fidelity Investments company. Within Strategic Advisors, Chris is head of the asset allocation for taxable assets and is responsible for setting various tax policy. And third, we have Alice Joe. Alice Joe is vice president with Fidelity Government Relations group in Washington, D.C. Her areas of expertise include financial services, regulation, retirement, and educate savings policy, as well as tax policy, which is why she's been invited on the panel today. So thank you all three of you for joining us on this panel, and I'm going to start with the question… I'm going to start with you Christina, because you are working every day with clients, and what I really want to have you help set some context, as you're talking with clients, what are some of the biggest concerns that they are dealing with and bringing to you around taxes?

Christina Anderson: That's a great question, Justin. I would think, say, first of all, every year around this time our clients are looking to look at where the market's going, try to reposition their portfolios, so as a normal housekeeping item for most of our clients, we're looking at rebalancing. And after last year we've had some extraordinary capital gains and some runups in the market, so it's a good time to review and rebalance your portfolios. And I'm sure Chris will speak more about this later. But second, we're in a unique year. We had exceptional gains in the markets last year, so we have some embedded capital gains in most of our clients' portfolios that we need to be thinking about and considering. Secondly, we're also talking about some possible tax legislation policy changes that I know Alice will cover in a little bit as well. So that's top of mind for clients: how does that affect them in their personal situation? Especially for joint families and income earners over the adjusted gross income levels above 400,000 dollars a year. So there are some tax policies that are on the table that it may be uniquely affect them and we want to think through their portfolios and their income this year and how we should be readjusting those portfolios. I'd say three, the treatment of capital gains. That is also part of that legislation I just mentioned. That could significantly change as in top of mind for clients. And then finally, we are looking at possibly pulling in the sunset provision for the generous capital ga-- sorry, estate tax and gift provision that's out there right now, the unified credit as it's referred to. This year in 2021 it's 11.7 million per person to use as a gift or as an exemption on their estate. And that is to be sunsetted in 2025. However, there is some legislation that that could be pulled in and even reduced. And so I think those are the three things that are top of mind, how to address the long-term capital gains in peoples' portfolios and do the appropriate rebalancing; what personal income tax changes could affect their situation; and then of course finally what estate tax changes and gift tax changes could affect their situation.

Justin Bailey: You know, that's a lot on our clients' minds. And if you even put it into context, too, that in the last two and a half years we've had three major tax law changes, between the 2018 tax law change, the Secure Act, and the Cares Act that have all had impact, and so it's hard to keep up. And then we have another one possibly on the horizon. This is where we need some help. Alice, let me pull you into the conversation. Obviously, with some potential changes, and I know there's headlines on this, it seems to be slowly unrolling, what the potential changes could or could not be. Could you provide us what the current understanding of maybe the two or three things that'll be impacting our clients the most on a personal tax level number one, and then I'll probably have a follow-up question after that.

Alice Joe: Yeah, absolutely. So, one, these tax changes are happening because there is going to be an infrastructure bill that's been [reading?] through Congress. We saw President Biden roll out his first one just a few weeks ago, where we saw some proposed increases to corporate tax rates, and we'll see some corresponding increases on the passthrough side as well that could impact some individuals. But the one thing we're expecting in the next week or two is a second infrastructure package, and this is going to be more of a soft infrastructure package where it deals with things like paid leave and child tax credits and free community college and perhaps some healthcare, whereas the first one was like roads, bridges, internet, clean energy. So that's where the individual increases in tax rates are probably going to happen. In terms of what that is, we don't know exactly, but I would tell you that some of the low hanging fruit includes targeting some of the wealthy. So, we've heard President Biden say that individuals making 400,000 or less won't be impacted or won't see any tax increases. I will say that after clarification from the White House, from insiders there, that that 400,000 dollar actually applies to households. So those households with perhaps two, two, are income earners, the threshold could potentially be lower on a per-person basis. So that's something to watch out for. But some of the low hanging fruit that I'm seeing out there that they're going to go after are the top tax rate. Right now, it's at 37 percent. It's going to go up and get back up in a few years, but they could accelerate that and move it back up to 39.6 for next year or some point in time sooner. Another thing, as Christina mentioned, you know, capital gains. That's been bandied about quite a bit in terms of changes there and perhaps taxing them at ordinary income rates. Another thing that they could potentially do is reinstate the piece limitation for itemized reductions. We saw that go away in 2017. That's low hanging fruit in terms of potentially getting some revenue to pay for the infrastructure, as well as carried interest. That's something that's been talked about in Washington for a long time to target the wealthy, so there's some potential changes there as well. A couple of those things that I hear about, I don't think has as much traction yet, although one has gotten a lot of attention more recently, particularly with the GameStop and the Robinhood stuff going on, is the financial transactions tax. A lot of Democrats raised that during the hearings surrounding GameStop, so that's certainly got peoples' attention again, as well as mark-to-market, which is something that Senate finance chairman Ron Wyden is a big champion of, is tax unrealized gains on an annual basis, which of course is very complicated, and fortunately doesn't have full support among the Democratic party, so that's where we are.

Justin Bailey: That's a lot too. (laughs) That's -- so let me kind of break it down a little bit and just make sure that I'm clear. Obviously, the top bracket possibly moving from 37 to 39, and I know it's been talked about that it's 400,000 dollars of adjusted gross income for households. I think you make a great point there to clarify, and that's probably generally geared towards joint filers. Single filers might see it a little bit differently. Again, it's not written, we don't know, but how this is shaping as we go, and then definitely some of the impact on the capital gains, at a certain threshold that those could flip from a favorable tax of long-term capital gains to an actual ordinary income, and then obviously there could be some other adjustments with the deductions. So that's a lot going on and to keep track of. Let me ask you this, and this is probably the 64,000-dollar question so I hope this is okay, Alice, but always we're going to get headlines, and I feel like we'll get a headline every three days, four days, right on this and it's going to ebb and flow. Always there's this question, all right, what's the likelihood that some of this is going to get passed? And when you're talking about low hanging fruit, can you expand a little bit more on what would be a couple of the hurdles that might be in Congress's way in, in enacting some of that, that will give us a greater likelihood of what is going to get passed and what isn't. And again, I know we can't predict the future, so I'm not asking you to, but just what's your general sense there?

Alice Joe: Yeah, so yeah, so one thing, the biggest hurdle is the fact that any kind of tax increases, it's a partisan issue, right? So Democrats control Congress now, but their margins in the Senate and the House are really slim. And the House, it's 211 to 217, so at most Democrats could potentially lose three votes. Otherwise they're going to have to start getting some Republicans to support their bill. And if it's a 2.2 trillion, like that first infrastructure package, I just don't see Republicans voting for that. Secondly, in the Senate, it's a 50-50 split right now. The reason the Democrats are control is because we've got President Biden -- Vice President Harris is President of the Senate, so she's the tiebreaker there. So that's hurdle number one. Hurdle number two is the fact that they're going to have to use a legislative process called budget reconciliation to pass the bill, because otherwise they would have to get 60 votes in the Senate to overcome a filibuster, which they're not going to have. So reconciliation allows them to pass the bill with a majority vote, with 51 votes, and that's where Vice President Harris is going to come in. Now using reconciliation, there are some limitations to that. So, any provision that's included is going to have to have some kind of revenue or spending impact. So obviously tax increases qualify for that, but any other policy changes are going to get kicked out. And important to note here is that reconciliation roles don't allow any changes to Social Security. So, we won't see any changes to Social Security tax if they used reconciliation. So that's good to note there. In terms of the dynamics at play here, even though the Democrats have a majority right now, despite the slim majority they have, there's a couple things to consider. So President Biden came out with a proposal for the corporate tax rate to go back to 28 percent. That's something that we don't see House Ways and Means Chairman Neal supporting. I think he wanted something probably a little bit more moderate, like in the 25 percent range, 26 percent range. That's the exact same place where Senator Joe Manchin from West Virginia is. He's a moderate Democrat, certainly doesn't want to see the tax rate to go back to 28 percent. He said he might accept a 25 percent tax rate. So, there's going to be some compromises there. So if they scale back on corporate tax rates they may have to get more revenue on the individual side, or some other mechanisms there. The other hurdle that Democrats are facing is the fact that there's a number of House Democrats who have said hey, I'm not going to vote for any kind of tax increases unless the bill includes a repeal of the limitation on the state and local tax deduction. You remember in 2017 it was kept at 10,000 dollars, (laughs) so that obviously disproportionately affected the East and the West Coast where property values are significantly higher. A lot of Democrats in those areas want to see that repealed. And so that's obviously going to cost more money, so that's going to have to be made up for somewhere else. So that's another big hurdle. So, there's just going to be a lot of horse trading going on. And the real big question is, when can they get that done? Speaker Pelosi had said hey, we want to get the entire tax bill done by July 4th and then send it to the Senate and get it done by recess. I would be surprised if that happened that quickly. But I will say that I am confident that there is going to be some tax increases. The real question is, what those taxes are going to be, and how much.

Justin Bailey: And that's probably the summary there, right? There's going to be some increases, just as you can tell, it's complicated. There's some give and take that's going to have to take place and there's other priorities that several members of Congress have, and so I got a feeling we're going to watch it on our 24-hour news cycle, literally unfold (laughs) day by day, so ebb and flow as it goes. But so with that in mind, Chris Fuse, I want to come to you because clients, we still have goals, we still have financial plans, we're still trying to reach what our hopes and dreams are, and our money has to help us do that. You're in the thick of it, literally managing those that have hired strategic advisors to manage their taxable assets, and also I want to say also, Chris, you've been doing this for several decades, so you've been through lots of different tax law changes. So, what are you, or how are you managing the issues of taxes on the investment portfolios that you're managing in today's environment?

Chris Fusé: All right, that's a, it's a great question. Hi everybody, and thanks again for taking your time today to listen to us. So as of today, so when you think about our tax strategies and how -- our techniques that we use to really manage taxes and your portfolios, we have a number of substantial ones. And sometimes they're used in a large amount, and sometimes they're kind of put off to the side burners and another strategy that might not have been used in the last year suddenly becomes very prevalent. For example, tax laws harvesting. Tax laws harvesting is something where we look at a security that happens to be at a loss, we capture that loss, that has, from a tax standpoint, has a value, we use those proceeds to replace that security with something that's very similar so the portfolio stays intact on a pretax type of a rate of return standpoint, but then we use those losses to offset gains as time goes on. Now 13 months ago, when people were looking to go out and find toilet paper and hand sanitizers and things like that, our team was really down in the weeds making sure that we were capturing those losses, recognizing that that is an episodic type of an event, when you have that type of a mass loss realization process. And I know clients look at that and see their portfolios, seeing a lot of turnover and saying, you know, why would you sell some of your best ideas? Well, we replace those with very similar return potential types of securities, and lo and behold, 13 months later, we are now at a much better spot for clients, they have participated in a significant market rally, and now we're using one of our other techniques, which is managing capital gains, which sounds very broad, but in this circumstance what it means is going back to just a few weeks ago, a lot of those gains and those portfolios were at what we consider to be short-term gains. And short-term gains are taxed at a much higher rate than long-term capital gains. So looking through the portfolios, looking to see, hey, is it worth taking a gain in a client portfolio to maybe rebalance, to reduce the risk a little bit, or can we wait another 10 days? Things like that, taking those different types of questions into consideration and then managing those capital gains to minimize that impact for clients. Now with that we also had a lot of losses that we recognized for clients over the year, so we know that there is some sort of a tax savings account that we can dip into if we really had to, but for the most part, you know, we were willing to let clients run their portfolios with maybe a little bit more risk than what we would typically want if taxes were not a consideration. But because they are we were certainly able to get the best of both worlds, keep that momentum going for the market and have that type of a performance, as well as being able to manage that tax situation, keep it down to a minimum. So those are the two really big ones that we've used in the past, in the past thirteen months or so, but you look at some of the other ones like managing -- investing in municipal bonds or taxes on securities for the fixed income side. Munis had a really rough time early in the pandemic, just because of nobody's ever seen really just total shutdown, or shutdowns across the country like that, so we took advantage of that and kept those as part of the portfolio where maybe we would have faded some of that as the rally continued, but they still offer such a compelling choice for your fixed income side. And then watching distributions, watching how if ETFs or mutual funds were paying distributions, while today not a huge issue because you're not really in that distribution season, so to speak. But we do monitor these to say, are we expecting large distributions at the end of this year, and that does affect some of the impacts on how we would choose to position a client portfolio today.

Justin Bailey: And even all on top of that, still navigating economic, business cycle, what's happening, so that we can take advantage of -- positioning portfolios to take advantage of value and growth and opportunities, but what I really heard you said is, if we don't have really some losses to help us offset gains, navigating gains becomes even harder, actually, especially on some of these short-term gains because the market has moved so fast so quickly and still they're so short-term.

Chris Fusé: Correct. This market cycle, and we do follow the economic cycle, especially as an asset allocator, to make sure that we overweight equities -- or underweight equities depending on where we are. The cycle has moved so fast, due to monetary and fiscal influence, that it was something that we decided to make sure that we were doing the best of both worlds for clients. We're making sure we're keeping that tax dragged down to a minimum, and then also doing the right thing on a pretax basis, so making sure that we're overweighting equities early in the cycle as we did last year to allow clients to capture that upside.

Justin Bailey: So, and these strategies have been working, they've been time-tested, true strategies to really help save more of our clients' money and help them reach their goals faster. Let me pose a slightly different question then. Just what Alice said, there's a high likelihood that some of these changes are going to be taking place in Washington with tax law, maybe especially around capital gains, where there could be certain threshold, that capital gains might be ordinary income. If that potentially changes, like how does that adjust what you do as far as managing clients' taxable monies in a tax-efficient way?

Chris Fusé: That's a great question because that's front and center on everybody's mind. So, you mentioned before, I've been here forever, (laughs) at least it feels like that some days, so my first joining into strategic was when Bill Clinton was running for his second term. So that gives you some framework on policies that the presidents have put forth over the years, some of them increasing taxes, some of them decreasing taxes, some of them manipulating capital gains, I mean, the whole gamut of rising and lowering, changing of the different tax rates. So we've developed a playbook, so to speak, that as we get better information, and this is where Alice is just such a vital part of the team, that as we start to see the specifics, then we will start to potentially make adjustments in client portfolios. So, without the specifics we really can't comment on what we would do because the difference, the choices that are out there right now are pretty stark in terms of different degrees of changing of the tax code. But once we see what that final bill looks like, and again, leaning on Alice very heavily to say is this going to pass or is this going to be watered down, that's when we go to work and start to maybe proactively make some changes in client portfolios to step aside of any potential tax changes, or to even take advantage of them. So it is this partnership that we have that really makes this work.

Justin Bailey: Well, and I would think, again, as I said, we've had three major tax law changes, a fourth one on the horizon in two-and-a-half to three years, this is actually pretty unprecedented time, we haven't had it in such a condensed time. But partnering and having a professional, at least helping our clients help navigate their money through this process is pretty critical. Which then moves me to Christina. Christina, I'm coming back to you. You said something in your earlier comments around some of our clients and Chris Fuse just said it too, we've had these big gains, some of our clients have had these big gains in single investments, right, in an individual stock or an individual investment, and it could be a major piece of their portfolio, which not only is a big gain but also a concentration risk, right? You brought that up of balancing how do we manage that. What are you telling clients of just repositioning the portfolio in light that maybe there could be some taxes as part of that repositioning of that capital gain?

Christina Anderson: In my experience, Justin, clients sometimes fall in love with investments, right? So if they've picked them themselves, it's their idea, it's their brainchild, and they fall in love with it, and I, I'd like to tell clients that, you know, you're only married to your spouse, you're not married to your investment, number one. And number two, when you've done really well in your investment, you should take some profit or the market will take it away, 'cause not all investments stay an incredible idea, you know? The market doesn't go straight up and to the right forever. So it's appropriate to have an asset allocation, it's appropriate to review and rebalance that into some of the underperforming constituents, and that's where Chris and his team become invaluable, because they approach it through the lens of the business cycle, and they approach it through taking losses where it's incidental to the investment management. And I really want to make sure that this audience is clear, we're not looking to lose money (laughs) in investments, I want to make sure they walk away knowing that, it just happens to be taking advantage of the volatility that naturally happens in the market. And last March is a great example. So last March was a perfect storm for one of my clients, where they were retiring from a major company and had a very large concentration in their company stock, and they had investment portfolios with Chris and his team, who had been doing all the right things with tax loss harvesting, and we had developed a sell-down strategy to slowly move out of the company stock. The great news is that, you know, because of the volatility that happened, and the ability for Chris and his team of professionals to rebalance these portfolios pretty quickly, we were able to capture those losses and actually diversify this individual and his family out of this concentrated position in this company stock a lot more quickly than he expected because you can take those capital -- long-term capital gains and offset them with those short-term capital losses that Chris and his team were doing through their tax loss harvesting dollar for dollar. So it gives clients an advantage if you have a professional and a team that's working with you that can take advantage of these very volatile days in the market and see through the emotion of it, and manage toward that -- where the market's going and take those incidental losses -- I want to make sure that point is really clear – the incidental losses in the investment portfolio -- that becomes a tax asset as valuable as anything else that they can offset and make appropriate decisions for their investments, because I've worked with clients for a long time, as have you, Justin, as have you, Chris, who say, I don't want to sell this security right now because I have too much to pay in taxes, too much in gains. And so this gives them the opportunity, when you do rebalance and when you do have an active tax loss harvesting strategy, to make an appropriate investment decision and not feel penalized by selling. I hope that answers your question.

Justin Bailey: It does answer it, and I do think some clients do get paralyzed by the tax impact, which I'm going to bring Chris back into this conversation because the other aspect of any kind of investment is, of course, risk, right? And as Christina just said, sometimes the market will take it away from us if we don't pay the tax. So Chris, in your professional opinion, and people managing money, how do you balance this consideration around tax, I don't want to lose money by paying taxes, but also I don't want to lose money just by the pure risk of the portfolio or the investment itself, so how do you balance both considerations?

Chris Fusé: Sure, it's a great question, and first of all, it goes back to what Christina was saying before is that you have to have a strategy to start with. So there has to be some sort of an asset allocation plan that you can always fall back to. And what I mean by that is if you're in a 60-40, 60 percent equity, 40 percent fixed-income portfolio, over the last year you have seen that portfolio drift upwards just because of market recurrence. And if you weren't taking gains off of that equity side, which is really tough to do psychologically, right? You know, the market's going up, you're making money, and now you're selling some of your best-performing things, it's sort of contrary to what you're taught as an investor of, hey, it's going up, why sell it? Well, it's because that original plan was suggested to you, or agreed upon, because of your circumstances. So, all of a sudden, if your 60-40 is now a 70-30 or some number even higher than that, you're kind of off your reservation in terms of that. So as an asset allocator in reducing risk, it's vitally important that when we see that -- because it happens all the time -- that we rebalance client portfolios. And if we have to pay tax, we'll pay tax, because that you can have on pretax basis will dwarf the taxes that you would pay potentially or avoid. So we want to keep that peace of mind. And then you can use the analogy of the tax tail wagging the investment dog, which I love -- I have three dogs. (laughter) It's really true, though, because if the clients who say I can't sell this because there's a tax involved, you know, unless that tax treatment is transitory and it's going to move and change at some point in time, you're setting yourself up for a lot of failure. We've seen -- again, seeing this over the years of the tech bubble of particular tech stocks of hey, I bought this at two, now it's at 70, I can't sell it because of the taxes, well, 16 months later you're back at two again and you don't have a tax problem. And tax problems aren't necessarily a bad thing. So, I think that's how we look at that is that we will take the pretax side of this and make sure that the client risk profiles are appropriate given what you've talked about with your advisors. That is by far the paramount choice on how we would structure a portfolio. The tax piece is there to enhance it, it's not there to drive it.

Justin Bailey: Very good. So, you can't let taxes completely drive it. I think if anyone -- a big takeaway for our audience here is if you do have some big gains, which most of our clients do, which is the whole point of investing, right? You want it to go up in value. But there is a point of how does that asset hit your goal, and if there's volatility, obviously taxes is part of that, but taxes is only one consideration. Risk could potentially be an even bigger one. So it has to be addressed. And I like what you said, Chris. It really comes down to the strategy, it's really your true north, just to try to put it -- all these pieces into one place of how do I reach my goal, right? How do I reach my goal, and hopefully the less riskiest way possible, right? All right, so I'm going to shift gears here. Alice, I want to pull you back in. I want to bring in the topic of gifting. Christina says some of her clients are bringing this up from kind of two standpoints: one is, of course, gifting today while they're living, to maybe heirs, also gifting or a transfer of wealth at death. There could be some potential changes there that Congress are looking at, and so, and I really kind of break this up into two categories. One is, of course, people, right, people that our clients care about: their heirs, their family members, so forth. The other area that I see that they give to is of course charitable organizations.

Those seems to be the two areas where their wealth might get transferred. Can you give us some insight on that particular piece of potential changes with the Federal Estate Tax, as well as maybe some of the gifting changes that happen on our income taxes from year to year?

Alice Joe: Yeah, happy to do that. So maybe we start with the heirs first, right. I'll say in Washington there's just been a tremendous amount of chatter about eliminating the stepped-up basis for assets. That's something, you know, obviously, it's a capital gains issue there, and there's been a couple of bills introduced more recently by Senator Van Hollen that would eliminate the stepped-up basis but would give a one million-dollar exclusion in capital gains there. There is a lot of talk about that, that's probably, I wouldn't say it's low hanging fruit, but it's certainly on the radar. I will say that if that were to go through, that's going to be hard to get every single Democrat on board because if you look on the map, along the Mississippi, wherever there are huge, huge swaths of farmland, and so there's a lot of Democrats in this districts that are going to have a lot of heartburn voting for something like that. So TBD on how that provision plays out. The other piece that I think might impact estate planning is, as Christina mentioned earlier, right now the exclusion for inherited assets is 11.7. That could go back down. I know it's going to sunset in 2025, but that could get accelerated back down to the original value of 5.6, 5.7, somewhere in that range, or there's also been discussion of bringing it back even lower, to like the two, two-and-a-half million-dollar range. So, again, it's really going to depend on how much money do they need at the end of the day, we don't know the total amount. We know it's at least 2.2 trillion, could be up to three to four trillion dollars depending on how that soft infrastructure package is going to cost. So, depends on where they're going to need to turn the dials. In terms of charitable assets there, and giving to charity, there is probably one that's more likely to happen than the other is the fact that there's been talk about limiting deductions at the 28 percent tax rate, so if you're in the higher tax brackets, in the 30s somewhere, you'll be limited in the amount that you can deduct for tax purposes as if you were at the 28 percent tax rate. The other piece, I don't know if this has got a lot of traction, but certainly I know the officials at the Treasury Department are thinking about this, is eliminating the deductibility of charitable contributions, but instead giving you a tax credit if you were to make contributions to charity. So that's one, another way to go at it, and the way, the reason why I think credits are attractive to them is they can sort of target those credits more towards lower-income or middle-income individuals rather than, you know, helping the wealthy get some credits there. But I would say that that probably is not low hanging fruit, in fact, it's probably not middle hanging fruit because the charitable industry does have a pretty strong voice here in Washington, and I know this was something they absolutely would not support.

Justin Bailey: Well, we're going to see how this unfolds. You know, the elimination of the stepped-up basis, and I know some clients, it almost feels like their whole estate plan is based on that. And this is not the first time that this idea has been proposed, to change or to eliminate it, even though I love your perspective that hey, it's, there's some hurdles there on that particular change of legislation, so it's not as probably low hanging fruit, but it is interesting how over time that does seem to be more talked about and addressed. So I guess one of my takeaways on that, even if we do adjust, so should we go from 11.7 down to five million or three-and-a-half, if that happens, I will say this, every estate planning attorney's phone'll be ringing off the hook. So my one takeaway on that is, if you haven't updated your estate planning documents, or have talked to your attorney for probably two, three, four years, it might not be a bad idea to get on his docket or her docket and make sure that you're getting some time with them, 'cause there could be some changes that could impact that. Which is going to shift me back to you, Christina. So what are you then, with all this coming to possibly with the estate, maybe charitable, what are you suggesting to your clients right now about how to address gifting at this stage, which a lot of 'em probably still want to still pass on some of these assets to their heirs and i.e. charities as well.

Christina Anderson: Yeah, I think it's a great question. So, I would say first, our approach is that we always try to ensure that we're taking care of the parents first, G1, the first generation, then G2, G3, and then the charities that they care about. So to the audience here, I believe a lot of them are just preretirement and are fifties, so the theme today is talking about tax strategy, so number one, if we're trying to reduce our current income tax burden and potential, I would say first talk to your financial consultant and make sure you're doing all the tax deferral on your personal level that you can do. It comes across our table often that clients aren't necessarily maximizing their 401(k) opportunities, as an example. And after the age of 50, you get a catchup contribution. There's also other tax strategies that they could look at, such as low-cost tax deferred annuities. So I would say first to the audience, have a solid investment income retirement plan for you. So know what you can afford to gift after that. So, it's important you take care of yourself before you make extraordinary gifts to charities or family members. (laughs) So that's number one. I would say number two, from an estate legacy planning aspect, you have three choices of what can happen with your money when you pass away. You can give it to your family, you can give it to a charity, or you can give it to

Uncle Sam. And you have a choice on who you get to give it to. And so getting some type of estate plan together, if you have family members that you care about, is really important. And there's a lot of strategies that you can utilize. We all think of that exemption as something to use on your estate at passing, but it is called a unified credit, which is a gift credit as well. So you can utilize that 11.7 million today, or up to that amount, and shelter future growth for your heirs. So, for the next generation, for your nieces, your nephews, your children, your grandchildren, whatever's important to you, and there are very particular type of trust structures that you can set up to shelter that growth. So that's something you can address with your financial consultant prior to going to your attorney, just so you have ideas, and I would say number three is charity. So you can do strategies through charitable bunching, which is basically accelerating your gift. If you give 15,000 today, you would actually give 30,000 this year, and that helps sort of guide the way you file your taxes, whether you itemize or you take the standard deduction. That's something to follow up with your CPA in. Or you could actually look to donate to a donor-advised fund. So as an example of another client, 'cause I think client examples help, they were selling a large piece of property this year, and they are very philanthropic folks. They are involved in lots of local charities here and intend to give several tens, hundreds of thousands of dollars to charity on an annual basis. And this year they need a little bit more of an exemption. And so, they actually gifted to a donor-advised fund more than they would, sort of prefunded their gifting for the next five years, into this donor-advised fund to take the charitable deduction this year, where it's most impactful to them. So those are all strategies that I think your financial consultants can help you vet through. And I would say, just a little playbook, number one, know what you can afford to gift. If you are preretirement, run the numbers and make sure you're comfortable, because some of these gifts are irrevocable and you want to make sure that you feel comfortable giving away money to kids or charities and then go, gosh, now I have to live on tuna fish and ramen. You don't want to put yourself in that situation, so make sure you're doing all you can for you and have a solid retirement plan. But number two, then talk through your legacy planning, you know, how to best appropriate affect multigenerational wealth transfer. And there's lots of different ways to do that, and it's important to kind of maybe just talk them through with your financial consultant prior to going your attorney, 'cause I'm Scottish and the attorneys all cost money, so just talk through some ideas and have a game plan with your financial planner prior to going. And then number three, there are lots of great tools that the financial consultants do have at their disposal to show the impact of what maybe accelerating some of these charitable gifts would look like to you, and help you locate the right assets. So we talked about the high quality problem Chris referred to earlier of having highly appreciated securities. This helps you not only just identify what are the right securities to gift, but also shows the impact. So those would be my three suggestions.

Justin Bailey: Yeah, I've always kind of boiled it down to our clients, especially around charity, that if you're writing a check to charity, you're doing it wrong. We should be looking, just like Chris, you say, looks for those losses. We should be looking for the biggest gains, and those might be some of our biggest candidates to give to charity, to eliminate that capital gain, as well as get that deduction. And then all these other considerations, I think you're right. Giving assets to our heirs or to the people that we care about, whether living or dead, there's some technicalities around it to make sure it goes to the right place at the right time under the most favorable circumstances. So leveraging your financial consultant as well as your attorneys and tax advisors is critical. All right, I'm going to wrap up with one final question, and I'm going to bring this back to Chris Fuse. Chris, so you're going to wrap it up with us, okay? We can attend a session like this, several of our clients have a hey, how should I be managing my portfolio, what should I be thinking about from a tax law changes, tax strategies, but this is kind of a point now in April 21st. How does one go, that's great, and we can probably implement some of this stuff, but what about next year and the year after and the year after, because as you know, you've been doing this for many decades, how does an investor stay vigilant in managing this tax impact? Because I don't think it's a one day, one-year type of endeavor.

Chris Fusé: That's a great question, and you're right, taxes are 24/7. They don't shut off, there's not a time when you don't need to not worry about them, and you know, I'm looking at the three of us here, four of us really, and, you know, we have four very distinct fulltime roles, and we are four of many on a group that tries to give you the best after-tax experience that we possibly can. So, it's a lot of work. It's an awful lot of work to stay, to keep the financial plan going, to do the asset allocation and choosing the investments, to making sure that our friends in Washington are doing the right thing and getting the information from them in how that translates into what we do with clients, to doing the individual account management work, to doing the technology behind that to make sure everything can be traded and moved on at the right time, to most importantly, taking the emotion out of them all. A lot of folks are on this call right now because taxes potentially are going to be going up. And ugh, that just doesn't feel good, right? So there's an emotional part of this that totally goes into your pretax investment side of it, so we as a very large team try to take that out and try to make sure that we exploit the opportunities that are available to us when they're available, and then make sure that we just continue to stay disciplined and do the right thing for clients as time goes on. So, it is a very difficult thing to do on your own. You're welcome to do it, and we all try, but having a set of resources like this I think is pretty unparallel in the business.

Justin Bailey: Yeah, I think it's very difficult to go in it alone 'cause there's just too much going on. And I even have a college background, my degree is in tax accounting, and I need help. I still need help, and just to keep abreast, and to even managing some of that money. So let me summarize our whole conversation here, and if there's any final thoughts from any of our panelists, please chime in, but as I really think about it, everybody, if I can boil it down, the first step is, of course, and Chris actually alluded to this, what is your strategy? And Christina, what is your goal? And I always like to say is this money that we're talking about, is it for you or someone else? That's really the first step. Is it for you or someone else? If it's for someone else, kids, second, third, fourth generations, charities, then we can start to go over to those particular strategies of charitable, transitioning assets in an appropriate way, estate planning and so forth. If it's for you, then the next question is simply this: do you need it sooner, or do you need it later? And if you need it sooner, three years, five years, 10 years, 12 years, taking advantage of some of these strategies of loss harvesting, distribution management, capital gains, all those things, 'cause that's money that we want to try to save as we're navigating with those strategies. If it's something in the distant future, 15 years, 20 years out, Christina alluded to tax deferral may be where you want to go 'cause then we can just shut it all off in your 401(k), IRA, tax shelter annuity and just grow it for the long term, and over 20, 25 years of compounding without tax drag could be advantageous too. So it's kind of a simple little decision tree of number one, who is this really for, and number two, what's our timeline, and then we can start to back into, how do we implement some of the solutions that Fidelity can partner with to make you more tax efficient? With that, thank you to all of our panelists. I'll open up, is there anything that I've missed for any of our panelists? Tremendous. Thank you again Christina, very, very insightful, Chris Fuse, always a pleasure, I always learn a lot from you, and Alice Joe, thanks for helping us get our heads around Washington a little bit (laughs) and what's going on, and I'm sure there's going to be ongoing discussions, headlines about this. So please everyone keep in contact with Fidelity.com, with your financial consultant, so that we can help you navigate as we go through these changing environments. But ultimately, get your money positioned to reach your goal. That's the ultimate, that's why we're all here and that's what we're trying to help you achieve. Thank you again and have a great day.

Christina Anderson: You, too.

END OF AUDIO FILE

Information provided in this document is for informational and educational purposes only.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the speakers and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

To the extent any investment information in this material is deemed to be a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity and is not intended to be used as a primary basis for you or your clients' investment decisions. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in them and receive compensation, directly or indirectly, in connection with the management, distribution, or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Investing involves risk including risk loss.

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

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.

The CFP® certification is offered by the Certified Financial Planner Board of Standards Inc. ("CFP Board"). To obtain the CFP® certification, candidates must pass the comprehensive CFP® Certification examination, pass the CFP® Board's fitness standards for candidates and registrants, agree to abide by the CFP Board's Code of Ethics and Professional Responsibility, and have at least three years of qualifying work experience, among other requirements. The CFP Board owns the certification mark CFP® in the United States.

The Chartered Financial Analyst (CFA) designation is offered by the CFA Institute. To obtain the CFA charter, candidates must pass three exams demonstrating their competence, integrity, and extensive knowledge in accounting, ethical and professional standards, economics, portfolio management, and security analysis, and must also have at least four years of qualifying work experience, among other requirements. CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

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.

Fidelity® Wealth Services provides non-discretionary financial planning and discretionary investment management through one or more Portfolio Advisory Services accounts for a fee. Advisory services offered by Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser, and Fidelity Personal Trust Company, FSB (FPTC), a federal savings bank. Nondeposit investment products and trust services offered through FPTC and its affiliates are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, are not obligations of any bank, and are subject to risk, including possible loss of principal. Discretionary portfolio management services provided by Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. 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, FPTC, FBS, and NFS are Fidelity Investments companies.

Personal and workplace investment products are provided by Fidelity Brokerage Services LLC, member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917.

979614.1.0