Tax-Efficient Investing
Creating a plan to help defer, manage, and reduce taxes
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Do you want to keep more of what you earn?

As you save and invest for retirement, there are key disciplines that can help you achieve your long-term goals, including research, investment selection, monitoring, rebalancing, and tax management.

It is important to have a plan in place that addresses taxes — particularly if the majority of your assets are in taxable accounts. The fact is, taxes can have a significant impact on your investment returns at any stage of your investing life. We believe overlooking the potential impact of taxes is a common investor mistake.

At Fidelity, we can help you develop an ongoing strategy — a plan that seeks to defer, manage, and reduce taxes. This includes:

- Education on tax concepts
- Resources to help support tax-efficient investing
- Solutions that may help improve the tax-efficiency of your portfolio

This brochure is designed to give you an overview of how taxes can affect your investments, and then help you create an efficient investing strategy.
Types of Taxes

Not all gains are taxed the same.

There are many types of taxes that can affect your investments, as shown in the table below. And because these taxes impact your portfolio in different ways, it’s important to understand what you pay in taxes now on your investments, and consider how taxes will impact your investments in the future.

<table>
<thead>
<tr>
<th>TAX TYPES</th>
<th>IMPACT*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Capital Gains</td>
<td>• Up to 23.8%** (plus state and local taxes)</td>
</tr>
<tr>
<td>Qualified Dividends</td>
<td></td>
</tr>
<tr>
<td>Short-Term Capital Gains</td>
<td>• Ordinary income tax rates are potentially subject to the Medicare surtax — up to a total of 43.4%** (plus state and local taxes)</td>
</tr>
<tr>
<td>Interest and Non-Qualified Dividends</td>
<td></td>
</tr>
<tr>
<td>Alternative Minimum Tax (AMT)</td>
<td>• Potential to increase your effective marginal tax rate on long-term capital gains and qualified dividends</td>
</tr>
</tbody>
</table>

*Tax rates as of January 2015.
** Includes 3.8% Medicare surtax, which applies to single filers with Modified Adjust Gross Income (MAGI) above $200,000 and joint filers with MAGI above $250,000.
Historical Tax Rates

The tax code has changed significantly over time.

Planning for taxes can be challenging, especially considering the dynamic nature of tax rates. Future tax rates, like market performance, are difficult to predict. One way to address this uncertainty is to diversify your investment strategy, taking into consideration a range of possible future tax scenarios.


Q

- Do you know what you pay in taxes on your investments?
- Where do you think your tax rate is headed in the future?
Taxes Can Significantly Reduce Returns

While no one can predict the future, knowing how taxes have historically affected certain types of investments can help for planning purposes.

The overall impact of taxes on performance is significant: Morningstar cites that, on average, over the 87-year period ending in 2013, investors gave up between one and two percentage points of their annual returns to taxes. A hypothetical stock return of 10.1% that fell to 8.1% after taxes would, in effect, have left the investor with 2% less investment income in his or her pocket, according to Morningstar. Although these findings vary based on changing market conditions, potential tax consequences are always looming. Simply put, taxes shouldn’t be ignored.

<table>
<thead>
<tr>
<th>Average annual return %</th>
<th>Stocks after taxes</th>
<th>Stock after taxes</th>
<th>Bonds after taxes</th>
<th>Bonds after taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1%</td>
<td>8.1%</td>
<td>5.5%</td>
<td>3.4%</td>
<td></td>
</tr>
</tbody>
</table>

**Past performance is no guarantee of future results.** This chart is for illustrative purposes only and does not represent actual or future performance of any investment option. Returns include the reinvestment of dividends and other earnings. Stocks are represented by the Standard & Poor’s 500 Index (S&P 500® Index). The S&P 500® Index is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks. Bonds are represented by the 20-year U.S. government bond. Inflation is represented by the Consumer Price Index (CPI), which is a widely recognized measure of inflation, calculated by the U.S. government. Please note that indexes are unmanaged and are not illustrative of any particular investment. It is not possible to invest directly in an index.

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Taking Control

Although some taxes are unavoidable, there are things you can do to potentially reduce their impact on your portfolio. The example below shows taxes beyond and within your control.

Example:
Taxation of mutual funds when held in a taxable account

**BEYOND YOUR CONTROL**

The FUND SELLS a holding for a capital gain or receives dividends or interest.

Current taxes are owed on the fund’s taxable distributions received by shareholders.

**WITHIN YOUR CONTROL**

INVESTOR SELLS shares of fund for a capital gain/loss or to rebalance.

Current taxes are owed on realized capital gains.

Q
- What strategies are you using to control your tax impact?
- What concerns do you have with your current approach?
You may be able to make your portfolio more tax efficient by making strategic choices about the kind of income your investments produce, the accounts you use and the deductions you take.
**DEFER**

Paying taxes with tax-advantaged accounts such as:
- 401(k)s
- 403(b)s
- IRAs
- Deferred annuities

**MANAGE**

The taxes you pay by employing strategies including:
- Asset location
- Tax-loss harvesting
- Tax-efficient fund selection
- Managing mutual fund distributions
- Managing capital gains

**REDUCE**

Future taxes with investments and strategies including:
- Roth IRA
- Municipal bonds
- 529 college savings account
- Charitable giving

**Q**

How are you using these strategies in your portfolio?
**Defer Paying Taxes with Tax-Advantaged Accounts**

Tax-advantaged accounts can help your money grow.

Saving in a tax-deferred account has the potential to let your balance grow faster, and taking advantage of an employer match makes workplace retirement savings an important part of a tax strategy.

This hypothetical scenario compares the value of saving $10,000 a year for 25 years in a taxable account, a tax-deferred 401(k), and a tax-deferred 401(k) with an annual match of $3,000. (This scenario assumes a 7% annual return.)

**HYPOTHETICAL ACCOUNT VALUES AFTER TAXES**

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Contribution</th>
<th>Value After Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>$423,917</td>
<td></td>
</tr>
<tr>
<td>Tax-deferred 401(k)</td>
<td>$507,574</td>
<td>$659,846</td>
</tr>
<tr>
<td>Tax-deferred 401(k) with company match</td>
<td>$325,000</td>
<td></td>
</tr>
</tbody>
</table>

This example is for illustrative purposes only and does not represent the performance of any security. This hypothetical example compares equivalent pre- and after-tax annual contribution amounts in the accounts shown ($10,000 pretax is equivalent to $7,500 after 25% for federal income taxes). Assumptions are: (1) annual $7,500 after-tax contribution to the taxable account; (2) annual $10,000 pretax contribution to both tax-deferred 401(k)s, and annual $3,000 pre-tax employer matching contribution to the tax-deferred 401(k) with match; (3) contribution made each year to each account for 25 years; (4) a 7% annual rate of return in all accounts; (5) annual earnings in the taxable account are taxed at an imputed constant annual federal income tax rate of 17%, based on a mix of short- and long-term capital gains, interest, and dividends; (6) a federal ordinary income tax rate of 25% applied to the entire balance of both tax-deferred 401(k)s at the end of the period; and (7) the account owner is over age 59½ at the end of the period. Fees, inflation, and state and local taxes are not taken into account. If they were, ending values would be lower. Taxable distributions from tax-deferred 401(k)s are subject to tax at ordinary income rates, which may be higher or lower than the rate assumptions in this example. Distributions from any tax-deferred 401(k) before age 59½ may also be subject to a 10% penalty.

The taxable account does not reflect tax-savings strategies such as tax-loss carryforwards, earnings consisting mostly of unrealized gains each year, or other strategies that might be used to reduce taxes in a taxable account, which could make the ending value of the taxable account more favorable.

Consider your current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. Systematic investing does not ensure a profit and does not limit loss in a declining market. The assumed rate of return used in this example is not guaranteed, and you may have a gain or loss when you sell your investments. Investments that have potential for a 7% annual rate of return also come with risk of loss.
Among the biggest tax benefits available to most investors are the deferral benefits offered by retirement savings accounts such as 401(k)s, 403(b)s, and IRAs.

1. These accounts can offer a double dose of tax advantages—contributions you make may reduce your current taxable income, and any investment growth is tax deferred.

2. Most tax-advantaged accounts have strict annual contribution limits and minimum required distribution rules. If you are looking for additional tax-deferred savings, you may want to consider tax-deferred annuities, which have no IRS contribution limits and are not subject to minimum required distributions.

Keep in mind that withdrawals of taxable amounts are subject to ordinary income tax and, if taken before age 59½, may be subject to a 10% IRS penalty.

<table>
<thead>
<tr>
<th></th>
<th>2015 ANNUAL CONTRIBUTION LIMITS</th>
<th>MINIMUM REQUIRED DISTRIBUTION RULES</th>
<th>CONTRIBUTION TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Sponsored Plans (401(k)s, 403(b)s)</td>
<td>* $18,000 per year per employee If age 50 or above, $24,000 per year</td>
<td>* Mandatory withdrawals starting in the year you turn 70½</td>
<td>* Pre-tax</td>
</tr>
<tr>
<td>IRAs (Traditional and Roth)</td>
<td>* $5,500 per year If age 50 or above, $6,500 per year</td>
<td>* Mandatory withdrawals starting in the year you turn 70½ (except for Roth)</td>
<td>* Pre-tax or After-tax</td>
</tr>
<tr>
<td>Tax Deferred Annuities</td>
<td>* No contribution limit</td>
<td>* Not subject to minimum required distribution rules for nonqualified assets</td>
<td>* After-tax</td>
</tr>
</tbody>
</table>

= Issuing insurance companies reserve the right to limit contributions.

- What type of retirement planning have you done?
- Are you taking full advantage of your employer-sponsored plans?
Manage the Taxes on Your Investments

Match the right account with the right investment.
“Asset location” may sound complex, but the basic idea is straightforward:

- Put the investments that generate the most taxable income in accounts that provide tax advantages.
- In general, the less tax efficient an asset is, the more you may benefit from putting it in a tax-advantaged account.

Consider investments that generate less taxes.

For taxable accounts, you want to factor in the potential tax implications of your investments. Consider passive ETFs, which generate lower capital gains distributions, and equity index mutual funds or separately managed accounts, which can help manage the tax exposure of your portfolio.

<table>
<thead>
<tr>
<th>Consider for Taxable Accounts</th>
<th>Consider for Tax-Deferred Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MORE TAX EFFICIENT</strong></td>
<td><strong>LESSE TAX EFFICIENT</strong></td>
</tr>
<tr>
<td><strong>HIGH TAX EFFICIENCY</strong></td>
<td></td>
</tr>
<tr>
<td>• Equity Index Funds (other than REITs)</td>
<td>• High-Turnover Equity Funds</td>
</tr>
<tr>
<td>• Equity Index ETFs (other than REITs)</td>
<td>• Mortgage Bond Funds</td>
</tr>
<tr>
<td>• Equity Income Funds</td>
<td>• Corporate Bond Funds</td>
</tr>
<tr>
<td>• Equity Income ETFs</td>
<td>• Leveraged Loan Funds</td>
</tr>
<tr>
<td>• Tax-Managed Equity Funds</td>
<td>• Rate Bond Funds</td>
</tr>
<tr>
<td>• Equity Separately Managed Accounts</td>
<td>• U.S. High Yield Bond Funds</td>
</tr>
<tr>
<td><strong>MEDIUM TAX EFFICIENCY</strong></td>
<td>• Emerging Market Bond Funds</td>
</tr>
<tr>
<td>• Bond Funds w/large U.S. Treasuries allocations</td>
<td>• REIT Funds</td>
</tr>
<tr>
<td>• Typical Actively Managed Equity Funds</td>
<td></td>
</tr>
</tbody>
</table>

The relative tax efficiency of these investments are generalizations and are not universally accurate. Each investment should be considered individually for the benefits of being held in a taxable or tax-deferred account.

1Please note that any funds sold in a taxable account may be subject to capital gains taxes if they have appreciated above their cost basis. This should be taken into consideration when considering selling funds from a taxable account to fund an annuity.

2Equity Income Funds typically distribute most of their income in the form of Qualified Dividends, which for many taxpayers are taxed relatively lightly, allowing most Equity Income Funds and ETFs to be considered High Tax Efficiency investments when compared with other investment options that generate taxable income. However, for higher income taxpayers, Qualified Dividends may be subject to both a higher tax rate and also the Medicare surtax on investment income, which may make them less efficient for those investors.

3Applies to investors who are subject to high rates of state/local tax on investment income; for other investors, these bond funds should be considered Lower Tax Efficiency.
Manage distributions and capital gains.
When investing in mutual funds within a taxable account, it may make sense to keep an eye on the calendar. Mutual funds are required to distribute any earnings they might have realized from interest, dividends, and capital gains to their shareholders every year, and investors are likely to incur a tax liability on the distribution. To avoid this potential tax liability, pay close attention to the distribution schedules for any funds you own—and avoid purchasing fund shares just before the distribution date.

Offset gains and income with losses.
“Tax-loss harvesting” is when you sell an investment in a capital asset like a stock or bond for a loss and use that to offset gains or income. It can be a powerful way to help you keep more of what you earn. The strategy is typically most effective during volatile markets, as capturing losses during downturns can help to offset gains during subsequent recoveries.

HYPOTHETICAL: HOW TO CARRY FORWARD TAX LOSSES TO OFFSET FUTURE GAINS

Tax savings will depend on an individual’s actual capital gains, loss carryforwards, and tax rate, and may be more or less than this example. This is a hypothetical example for illustrative purposes only, and is not intended to represent the performance of any investment.

- Have you matched your investments and your accounts effectively?
- What is your approach to harvesting losses?
Roth accounts or Roth IRA conversion
Instead of deferring taxes, you may want to accelerate them by using a Roth account, if eligible.4 A Roth IRA contribution won’t reduce your taxable income the year you make it, but there are no taxes on your future earnings and no penalties when you take a distribution, provided you hold the account for five years and meet one of the following conditions: you are age 59½ or older, disabled, make a qualified first-time home purchase (lifetime limit $10,000), or have died. This may make a difference if you think your tax rate will be the same or higher than your current rate when you withdraw your money.

Municipal bonds
Municipal bonds are generally exempt from federal taxes,8 whether they are purchased as individual securities directly or through a fund, ETF, or separately managed account. Depending on your tax bracket, you may benefit from after-tax total returns higher than those offered by taxable bonds. If you own municipal bonds issued in your primary state of residence, that income may also be exempt from state and local taxes.

RELATIVE VALUE OF MUNICIPAL BONDS VERSUS TREASURIES

Tax-Equivalent Yield Comparison

Source: Bloomberg, Thomson Reuters, Fidelity Investments, as of 09/30/2014.
Note: The yields and calculated Tax-Equivalent Yields in the chart do not reflect the potential effects of the Federal Alternative Minimum Tax or state/local taxes, either of which could have a significant impact on the values shown.

8The municipal market can be affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities. Interest income generated by municipal bonds is generally expected to be exempt from federal income taxes and, if the bonds are held by an investor resident in the state of issuance, state and local income taxes. Such interest income may be subject to federal and/or state alternative minimum taxes. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets. Generally, tax-exempt municipal securities are not appropriate holdings for tax-advantaged accounts such as IRAs and 401(k)s.
College savings plans
The cost of higher education for a child may be one of your biggest expenses. Like retirement, there are no shortcuts when it comes to saving, but there are some options that can help your money grow tax free. For instance, 529 college saving accounts and Coverdell accounts will allow you to save after-tax money but get tax-deferred growth and federal income tax-free withdrawals when used for qualified expenses.

Charitable giving
The use of charitable deductions can be a powerful part of a tax strategy for those who were planning to make donations. One way to make the most of charitable giving is to donate long-term appreciated securities. Donating long-term appreciated securities lets you eliminate capital gains tax or the new Medicare surtax, allowing you to donate more to charity compared with selling the stock and donating the proceeds. A donor-advised fund can streamline the donation process, especially if you plan to give to multiple charities.

This is a hypothetical example for illustrative purposes only.

10 Other deductibility limits may apply depending on the taxpayer’s individual situation and the type of asset donated to charity. Please consult your tax advisor.

11 This assumes all realized gains are subject to the maximum federal long-term capital gain tax rate of 20% and the Medicare surtax of 3.8%. This does not take into account state or local taxes, if any.

12 Rules and regulations regarding tax deductions for charitable giving vary at the state level and, therefore, this variation and your personal situation may affect the information contained herein. Tax deductions discussed herein refer specifically to federal taxes. The availability of certain federal income tax deductions may depend on whether you itemize deductions. Charitable contributions of capital gain property held for more than one year are usually deductible at fair market value. Deductions for capital gain property held for one year or less are usually limited to cost basis.

Q • What strategies are you employing to reduce current and future taxes?
There are many ways to make your investments more tax efficient. You should start by understanding the tax treatment of certain accounts and identifying how you may or may not be utilizing them. Then consider what combination of strategies makes sense for your situation.

Working together with you, we’ll take the following steps to help you plan and invest:

1. **Understand** how taxes impact your investments.
2. **Create a plan** that incorporates the appropriate strategies for your situation.

**DEFER:**
Consider if you:
- Expect to use the assets for retirement
- Receive an employer match
- Have a long time horizon, or
- Expect your future tax rate to be lower

**MANAGE:**
Consider if you:
- Want to manage taxes on investments
- Have tax-inefficient assets in your portfolio
- Want professional money management
- Have a shorter time horizon
- Have taxable retirement assets

**REDUCE:**
Consider if you:
- Expect your future tax rate to be higher
- Have a shorter time horizon
- Have specific objectives for your investments (e.g., donate to charity, medical expenses)
- Expect to have a legacy
- Have highly appreciated assets

Understand how taxes impact your investments.

Create a plan that incorporates the appropriate strategies for your situation.
Choose investment accounts and strategies to help meet your goals, including:

**DEFER:**
- Workplace plans
- Traditional IRAs
- Tax-deferred annuities

**MANAGE:**
- Professionally managed accounts
- Tax-loss harvesting
- Asset location

**REDUCE:**
- Roth IRA account
- Municipal bond investing (individual securities, funds)
- Charitable giving
- 529 accounts

Set up regular check-ins with your tax advisor and Fidelity investment professional to review your investment portfolio.
Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

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.

Taxes Can Significantly Reduce Returns data, Morningstar, Inc., 2014. Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $110,000 in 2010 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Generally, among asset classes stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate. Although bonds generally present less short-term risk and volatility than stocks, bonds do entail interest rate risk (as interest rates rise, bond prices usually fall, and vice versa), issuer credit risk, and the risk of default, or the risk that an issuer will be unable to make income or principal payments. The effect of interest rate changes is usually more pronounced for longer-term securities. Additionally, bonds and short-term investments entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks.

For a Traditional IRA, full deductibility of a contribution is available to active participants whose 2015 Modified Adjusted Gross Income (MAGI) is $98,000 or less (joint) and $61,000 or less (single); partial deductibility for MAGI up to $118,000 (joint) and $71,000 (single). In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan whose MAGI is less than $183,000 for 2015; partial deductibility for MAGI up to $193,000.

For a Roth IRA, full deductibility of a contribution is available for single filers: For 2015, single filers with Modified Adjusted Gross Income (MAGI) up to $116,000 are eligible to make a full contribution; a partial contribution can be made for MAGI of $116,000–$131,000. Married filing jointly: For 2015, MAGI up to $183,000 for a full contribution; partial contribution for MAGI of $183,000–$193,000.

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