Tax-Efficient Investing

Creating a plan to help manage, defer, and reduce taxes
Taking control: Developing an ongoing tax strategy

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 most 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. Morningstar cites that, on average, over the 90-year period ending in 2016, investors gave up between one and two percentage points of their annual returns to taxes. 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 manage, defer, 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 provides an overview of how taxes can affect your investments, and suggests considerations to help you create an efficient investing strategy.
Taxes: Types and historical rates

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 2017.
‡Includes 3.8% Medicare surtax, which applies to single filers with Modified Adjusted Gross Income (MAGI) above $200,000 and joint filers with MAGI above $250,000.

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.


Do you know how much you pay in taxes on your investments? Where do you think your tax rate is headed in the future?
Manage the taxes on your investments

Taxes can have a significant impact on your investment returns over the long term, yet many investors don’t think about how taxes may affect their investments until the end of the year. It’s important to remember that tax management isn’t about using one technique once a year; it’s about building a plan that uses multiple tax-sensitive strategies on a frequent, even daily, basis to help to reduce your overall tax liability.

Are you making the most of tax-sensitive investment management techniques?

Many investors believe they have the time and resources needed to consistently monitor a taxable portfolio for tax-savings opportunities. In reality, this is an incredibly time-consuming task and one that demands research, analysis, and attention to detail throughout the year—not just at year’s end.

If you are not managing your portfolio, you may be paying more than you need to in taxes. Use the chart below to help keep track of the strategies you might consider taking to minimize the impact of taxes.

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest Tax Losses</td>
<td>• Selling securities at a loss can help offset taxes on both gains and income, reducing their impact on returns</td>
</tr>
<tr>
<td></td>
<td>• Tax-loss harvesting may help reduce taxes while maintaining an expected level of risk</td>
</tr>
<tr>
<td>Use Loss Carryforward to Reduce Future Taxes</td>
<td>• Investment losses can offset capital gains for the tax year in which they’re realized, or be carried forward to offset capital gains in subsequent years</td>
</tr>
<tr>
<td></td>
<td>• Carryforwards are most effective when markets are volatile</td>
</tr>
<tr>
<td>Manage Capital Gains</td>
<td>• Capital gains from investments held less than a year are taxed at a higher rate</td>
</tr>
<tr>
<td></td>
<td>• Taking advantage of the differences between short- and long-term rates is a simple way to help reduce the amount of taxes owed</td>
</tr>
<tr>
<td>Manage Exposure to Fund Distributions</td>
<td>• Mutual funds distribute earnings from interest, dividends, and capital gains every year; shareholders are likely to incur a tax liability when that happens</td>
</tr>
<tr>
<td>Invest in Tax-Exempt Securities</td>
<td>• Municipal bonds are generally exempt from federal taxes and, in some cases, state taxes</td>
</tr>
<tr>
<td></td>
<td>• Depending on your tax bracket, your after-tax total return may be greater if you invest in exempt securities, rather than taxable bonds</td>
</tr>
</tbody>
</table>
Use loss carryforward to reduce future taxes

Tax-loss harvesting may help reduce taxes while maintaining an expected level of risk. Selling investments at a loss may allow an investor to offset realized capital gains, reducing their total tax obligation. Following a year with large portfolio losses, an investor may be able to offset capital gains in subsequent years.

In this example, the investor used a $10,000 net loss in 2008 by utilizing the carryforward tax-loss strategy and avoided paying capital gains for the next four years. It wasn’t until 2012 that gains resulted in a tax liability. This is important because compounding is key to wealth generation, so it’s typically a good strategy to defer paying taxes as long as possible.

This is a hypothetical example for illustrative purposes only and is not intended to represent the performance of any investment. 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.

What is your approach to harvesting losses?
Defer paying taxes with tax-advantaged accounts

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, IRAs, and tax-deferred annuities.

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 required minimum 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 for nonqualified assets.

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. Use the chart below to keep track of the accounts you could use to help minimize the impact of taxes.

<table>
<thead>
<tr>
<th></th>
<th>2018 ANNUAL CONTRIBUTION LIMITS</th>
<th>REQUIRED MINIMUM DISTRIBUTION RULES</th>
<th>CONTRIBUTION TREATMENT</th>
</tr>
</thead>
</table>
| Employer-Sponsored Plans [401(k)s, 403(b)s] | • $18,500 per year per employee  
  • If age 50 or above, $24,500 per year | Mandatory withdrawals starting in the year you turn 70½ | Pretax or After-tax |
| IRAs (Traditional and Roth) | • $5,500 per year  
  • If age 50 or above, $6,500 per year | Mandatory withdrawals starting in the year you turn 70½ (except for Roth) | Pretax or After-tax |
| Tax-Deferred Annuities | * No contribution limit  
  * Not subject to required minimum distribution rules for nonqualified assets | After-tax |

§Issuing insurance companies reserve the right to limit contributions.
See page 11 for endnotes 2 and 3: 2018 Traditional and Roth IRA Contribution Income Limits.
Tax-advantaged accounts can help your money grow.

Saving in a tax-deferred account has the potential for a balance to grow faster and can provide additional benefits compared with a taxable account, particularly when you factor in trading and rebalancing over the course of the year.

Annually, when you review the tax impact of your investments, consider locating and holding investments that generate certain types of taxable distributions within a tax-deferred account rather than a taxable account. Tax-deferred accounts can help manage the tax exposure of your portfolio.

The example below compares the projected values following liquidation, in 20 years, of a $250,000 investment in a taxable bonds under two scenarios: one in which it is held in a taxable account and one in which it is held in a tax-deferred account, such as a variable annuity with a 0.25% annual annuity charge.

HYPOTHETICAL LIQUIDATED VALUE IN 20 YEARS

<table>
<thead>
<tr>
<th>Initial Investment Amount: $250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
</tr>
<tr>
<td>$250,000</td>
</tr>
<tr>
<td>$350,000</td>
</tr>
<tr>
<td>$450,000</td>
</tr>
<tr>
<td>$550,000</td>
</tr>
<tr>
<td>$650,000</td>
</tr>
<tr>
<td>$526,281</td>
</tr>
<tr>
<td>$573,984</td>
</tr>
</tbody>
</table>

This hypothetical example is not intended to predict or project investment results. Your actual results may be higher or lower than those shown here.

Assumptions include: $250,000 investment, 20-year time horizon, 0.25% annual annuity charge for the tax-deferred variable annuity (VA), marginal federal income tax rate of 36.8% (33% ordinary income tax plus 3.8% Medicare surtax) for the entire period, and a 6% annual rate of return (equivalent to a 5.74% net annual rate of return for the VA) with the gain assumed to derive entirely from income (characterized for tax purposes as ordinary income). Investments that have the potential for a 6% annual rate of return also come with the risk of loss. This rate of return is not guaranteed.

The year-by-year liquidated value after federal income taxes have been deducted for the VA at the 5.74% and -0.25% (0% less 0.25% annual annuity charge) net annual rates of return shown above are: $259,061/$249,375 for year 1, $268,642/$248,752 for year 2, $278,773/$248,130 for year 3, $289,484/$247,509 for year 4, $300,810/$246,891 for year 5, $312,785/$246,273 for year 6, $325,447/$245,658 for year 7, $338,835/$245,044 for year 8, $352,991/$244,431 for year 9, $367,959/$243,820 for year 10, $383,785/$243,210 for year 11, $400,519/$242,602 for year 12, $418,213/$242,002 for year 13, $436,916/$241,405 for year 14, $453,484/$240,808 for year 15, $470,680/$240,211 for year 16, $488,528/$239,614 for year 17, $507,053/$239,017 for year 18, $525,411/$238,421 for year 19, and $544,583/$237,824 for year 20.

The year-by-year liquidated value for the taxable account at the 6% rate of return shown above is: $259,480 for year 1, $269,319 for year 2, $279,532 for year 3, $290,132 for year 4, $301,134 for year 5, $312,853 for year 6, $324,405 for year 7, $336,706 for year 8, $349,374 for year 9, $362,726 for year 10, $376,481 for year 11, $390,757 for year 12, $405,574 for year 13, $420,954 for year 14, $436,916 for year 15, $453,484 for year 16, $470,680 for year 17, $488,528 for year 18, $507,053 for year 19, and $525,411/$238,421 for year 20.

For additional information regarding this example, see page 11.
Reduce taxes now or in the future

While it may take a little planning and effort, implementing these strategies can help you reduce your taxes now or in the future.

Charitable giving

Contribute appreciated stock instead of cash: By donating long-term appreciated stocks or mutual funds to a public charity, you are generally entitled to a fair market value (FMV) deduction, and you may be able to eliminate capital gains taxes enabling you to give up to 23.8% more.**

Contribute real estate or privately held business interests (e.g., C-corp and S-corp shares; LLC & LP interests): Donating a non-publicly traded asset with unrealized long-term capital gains also gives you the opportunity to take an income tax charitable deduction and eliminate capital gains taxes.

Accelerate your charitable giving in a high-income year with a donor-advised fund: If you plan on giving to charity for years to come, consider contributing multiple years of your charitable contributions in the present year. By doing so, you maximize your tax deduction when your income is high and have money set aside to continue supporting charities for future years.

The example below highlights the potential tax savings of donating securities directly to charity vs. selling the stock and then donating the proceeds.††

** This assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 23.8% (includes the 3.8% Medicare surtax).

†† This is a hypothetical example for illustrative purposes only. The chart assumes that the donor is in the 39.6% federal income bracket with an adjusted gross income (AGI) of $500,000. State and local taxes, the federal alternative minimum tax, and limitations to itemized deductions applicable to taxpayers in higher-income brackets are not taken into account. Please consult your tax advisor regarding your specific legal and tax situation. Information herein is not legal or tax advice. Assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%. Does not take into account state or local taxes, if any.
Roth accounts or Roth IRA conversion

Instead of deferring taxes, you may want to accelerate them by using a Roth account, if eligible. 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, are 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. Also, be aware that while your earnings may be subject to taxes and penalties if withdrawn before those conditions are met, your contributions can be withdrawn at any time without tax or penalty.

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 efficiently. For instance, 529 college saving accounts and Coverdell accounts will allow you to save after-tax money, but get tax-deferred growth potential and federal income tax-free withdrawals when used for qualified expenses.

Q How are you currently giving to charities?
Have you considered donating appreciated non-cash assets?
Create your plan—your next steps

There are many ways to make your investments more tax efficient. You can get started 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.

A Fidelity investment professional can help you build your plan. Here are the steps we can take together:

1. Research how taxes impact your investments. ......................................................... Completed □

2. Create a plan that incorporates the appropriate strategies for your situation. ......................................................... Completed □

3. Choose the appropriate combination of investment accounts and strategies to help meet your goals. ......................................................... Completed □

- **MANAGE:**
  - □ Tax-loss harvesting and loss carryforward
  - □ Capital gains management
  - □ Managing mutual fund distributions
  - □ Municipal bonds

- **DEFER:**
  - □ Workplace plans
  - □ Traditional IRAs
  - □ Tax-deferred annuities
  - □ Asset location

- **REDUCE:**
  - □ Charitable giving
  - □ Roth IRAs and Roth workplace plans
  - □ 529 college savings accounts

4. Set up regular check-ins with your tax advisor and Fidelity investment professional to review your investment portfolio. ........... Completed □
Additional Information from page 1: Impact Of Taxes On Investment Returns — 1926–2016

Taxes Can Significantly Reduce Returns data, Morningstar, Inc., 10/1/2017. Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $120,000 in 2015 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included. 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.

Additional Information from page 6: 2018 Traditional and Roth IRA Contribution Income Limits

For a Traditional IRA, full deductibility of a contribution is available to active participants whose 2018 Modified Adjusted Gross Income (MAGI) is $101,000 or less (joint) and $63,000 or less (single); partial deductibility for MAGI up to $121,000 (joint) and $73,000 (single). In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan and whose spouse is covered by an employer-sponsored plan and whose MAGI is less than $189,000 for 2018; partial deductibility for MAGI up to $199,000.

For Roth IRA income requirements: For single filers: For 2018, single filers with Modified Adjusted Gross Income (MAGI) up to $120,000 are eligible to make a full contribution; a partial contribution can be made for MAGI of $120,000–$135,000. For 2018, married filing jointly with MAGI up to $189,000 for a full contribution; partial contribution for MAGI of $189,000–$199,000.

Additional Information from example on page 7: Hypothetical Liquidated Value in 20 Years

In the taxable account, it is assumed taxes incurred on the income are paid annually from the income itself, with the remainder reinvested. For the variable annuity (VA), it is assumed that all income — less the 0.25% annual annuity charge — is reinvested and it is assumed the investor liquidates the VA at the end of the time period, and pays taxes on the gain out of the proceeds. If the assets in the VA were liquidated entirely in one year, its proceeds may increase the tax bracket to the marginal federal income tax rate of 43.4% (39.6% ordinary income tax plus 3.8% Medicare surtax), which would minimize and potentially eliminate any savings of the VA. To avoid this, the VA would need to be liquidated over the course of several years or annuitized, which would lengthen the deferral period.

State and local taxes, inflation, and fund and transaction fees were not taken into account in this example; if they were, performance for both the taxable account and the VA would be lower. This example also does not take into account capital loss carryforwards or other tax strategies that could be used to reduce taxes that could be incurred in a taxable account, to the extent they apply to your situation, the comparative advantage of a VA would be diminished. Lower tax rates on capital gains, dividends, and interest income would make the taxable investment more favorable. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. Consider your current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors.

VAs are generally not suitable for investors with time horizons of less than 10 years, as, in most cases, there is little to no advantage over a taxable account for the first 10 years of the investment.
Before investing, consider the investment objectives, risks, charges, and expenses of the fund or annuity and its investment options. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

This information is intended to be educational and is not tailored to the investment needs of any specific investor. Keep in mind that investing, including variable annuities, 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.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917
© 2017 FMR LLC. All rights reserved.

710334.5.0 1.9863200.104 TEI-BRO-1217