# The After-Tax Advisor®

**Eaton Vance Advisor Institute**

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Imagine how your practice could grow and thrive with an approach that helps:

- Preserve and grow more client wealth
- Protect more family wealth across generations
- Unlock and realize more charitable intent
- Strengthen the case for asset allocation and diversification
- Put your fees in better perspective
- Reinforce your personal brand
- Lead to higher-quality referrals from clients and centers of influence

If becoming an After-Tax Advisor could result in these outcomes, would you want to learn more? This primer will get you started.

## Go Deeper

Taking client relationships to the next level.

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Taxes are something of a "third rail" for financial advisors. We don't want to touch them because we're not professional tax advisors. But unless our clients are nontaxable pension plans or foundations, there is no denying that taxes impact our clients' ability to achieve their financial goals.

We cannot simply cross our fingers and hope somebody else will provide tax information that aligns with our investment strategy. We need to become After-Tax Advisors.

This primer will address three tax tenets your taxable clients need to understand:

1. **Taxes can be a client's easiest investment "fee" to reduce**
2. **Asset location can be as important as asset allocation**
3. **Uncle Sam can be a coach, not just a referee**

It also provides a series of suggested After-Tax Advisor activities to help you think about taxes year-round with existing and prospective clients.

Neither Eaton Vance nor the authors provide tax or legal advice. In most cases, neither do you. But as investment and wealth advisors, you have a duty to understand how taxes affect the achievement of client outcomes and to optimize client experiences in the face of taxes. We strongly advocate directing your clients to tax professionals for tax advice. Your role is to help achieve investment outcomes that align with client objectives and advance their goals. If your clients include taxable investors, you cannot do your job, let alone do it well, without understanding the tax implications of your investment recommendations.

The tax implications of investment decisions can change over time. They can also vary by client income, tax filing status, tax filing jurisdiction, investment type and other factors.

## The Opportunity

Ask yourself a few pointed questions:

- What are **you** doing about fee compression?
- How are **you** differentiating yourself from other advisors?
- How are **you** becoming attractive to high-net-worth and ultra-high-net-worth investors?

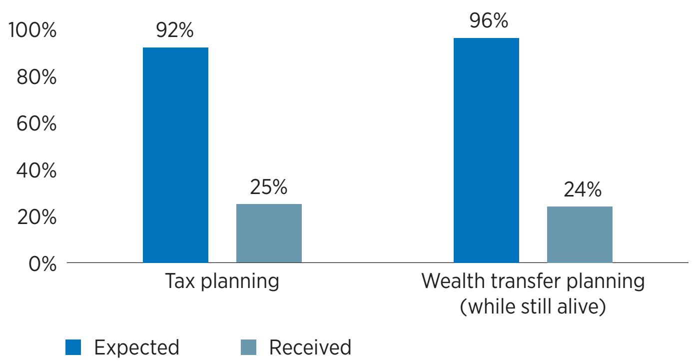
Taxes matter. Taxes can reduce the investment return clients experience. Taxes reduce the amount of income available for your clients to spend, save and invest. However, tax planning is an investor need that is going largely unmet by wealth managers (Exhibit A). Financial planners do only slightly better in delivering the tax and estate planning their clients expect (Exhibit B).

Increased wealth is often accompanied by increased tax complexity. Whether your clients complete their own tax returns using off-the-shelf software or hire accountants to do the work, they still want and need your help.

After Congress passed the Tax Cuts and Jobs Act of 2017, a majority of wealthy investors thought their taxes would stay the same or decrease (Exhibit C). Think about your wealthier clients' actual experiences upon filing their 2018 tax returns in early 2019: How many actually saw their taxes stay the same or decline? Most of the advisors we know report the opposite.

Exhibit A

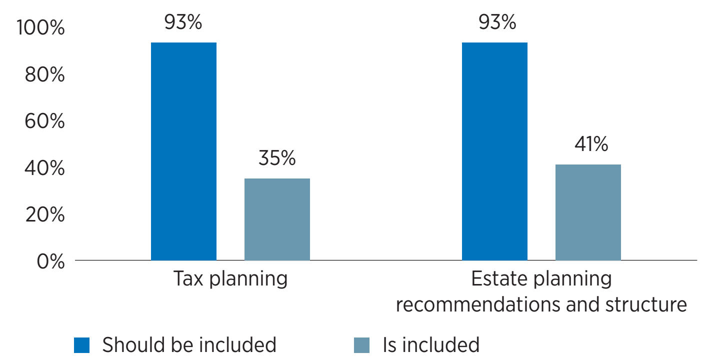
### Gap Between Service HNW/UHNW Clients Expect From Their Wealth Managers and What They Actually Receive




Source: Spectrem Group, "Defining Wealth Management," 2018, p.14.

Exhibit B

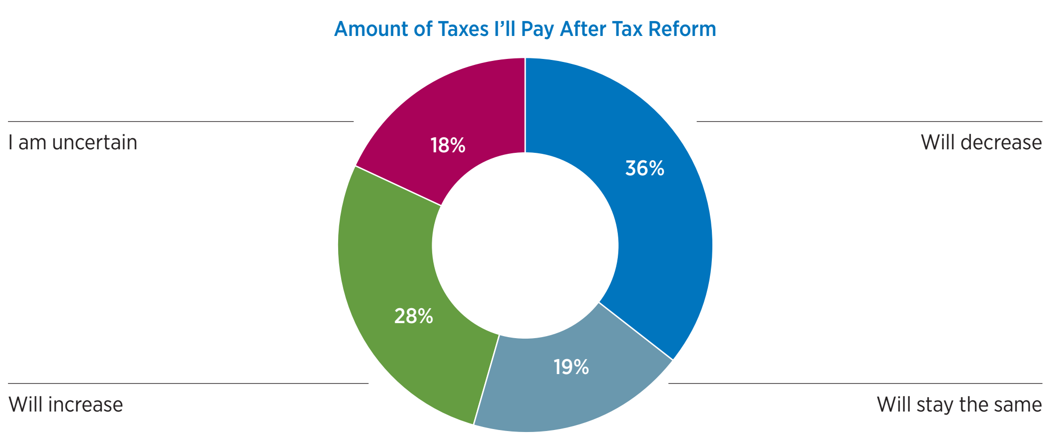
### Gap Between What Should Be Included in a Financial Plan vs. What Is Actually Included in a Financial Plan




Source: Spectrem Group, "Defining Financial Planning," 2019, p.28.

Exhibit C

### What Wealthy Investors Expected From the Tax Cuts and Jobs Act (Before Their First Postreform Tax Filing)




Source: Spectrem Group, "Politics, taxes and investors' changing attitudes," 2018, p.19.

Whose job is it to help clients understand tax law changes? Professional accountants deserve to be at the top of the list, of course, but whom do you suppose clients would turn to next? You, their financial advisor (Exhibit D).

Research suggests that tax management can add more value to clients' equity portfolios than almost any other service you can provide (Exhibit E). Since you are not a tax advisor, the best way to align your services with client expectations is by providing tax-aware investment advice as part of your clients' "tax team."

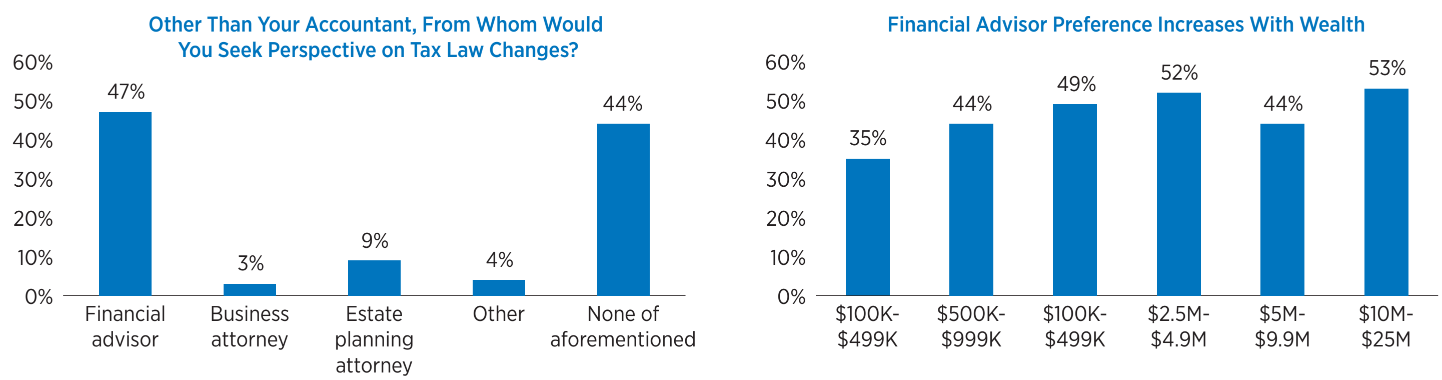
## Three Tax Tenets for the After-Tax Advisor

When it comes to tax planning for your clients, you need to think ahead — far ahead — to help them grow tax-smart wealth throughout the year. Thinking ahead and providing timely recommendations to improve after-tax portfolio growth can reinforce your value as an After-Tax Advisor.

Providing year-round, tax-aware planning boils down to the client-specific application of three tax tenets. Since (in most cases) neither you nor your clients regularly speak in the language of the tax code, you can best communicate these tenets in your daily interactions using the normal language clients use every day.

Exhibit D

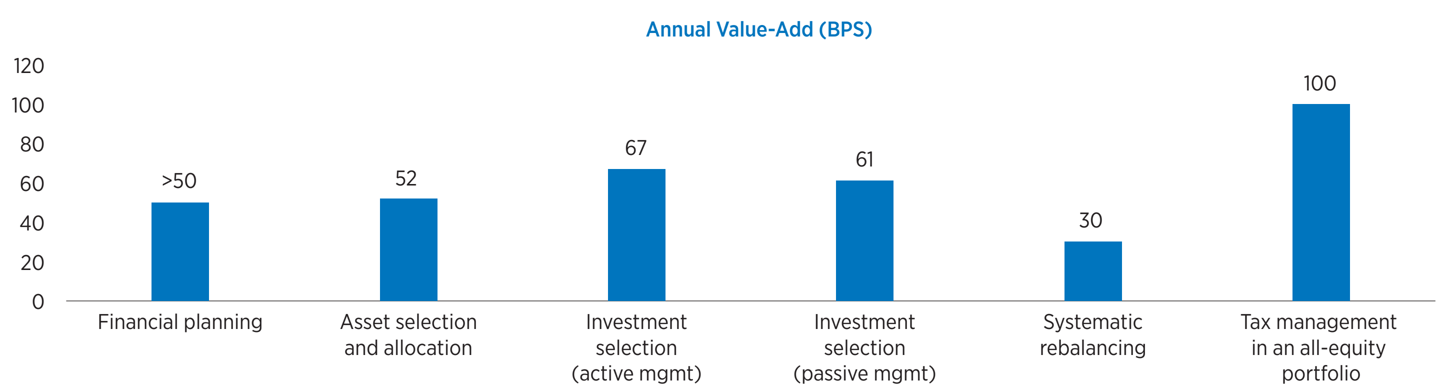
**Wealthy Investors' Preference for Receiving Tax Information (Other Than Accountant)**




Source: Spectrem Group, "Politics, taxes and investors' changing attitudes," 2018, p.31.

Exhibit E

**Envestnet PMC's Capital Sigma Breakdown**




Sources: Envestnet, Morningstar, Vanguard; as cited in Envestnet PMC, "Capital Sigma: The Advisor Advantage," 2019, p.3.

## 1. Taxes Can Be a Client's Easiest Investment "Fee" to Reduce

Our industry faces relentless fee pressure, and you may have clients who question every small charge or who want to bargain over basis points. It is as if they think advisor fees are the biggest drag on their investment performance. But the larger erosion of wealth, by far, occurs at Uncle Sam's hands, making taxes almost act like the largest "fee" a client typically pays. The After-Tax Advisor provides tax-aware investment advice that reflects an understanding of the corrosive effects of taxes on client portfolios.

Have you ever considered how explaining the cost of taxes puts your fee into perspective? If your fee is, for example, 1%, how does that compare to saving 20% or more through careful tax planning? What is the long-term effect of taxes on a client's returns?

Unless a client is nontaxable or invested entirely in assets generating tax-exempt income, taxes on income may reduce investment returns. The Eaton Vance Parametric Investment Tax Calculator provides up-to-date tax rates for a host of different income sources, and allows customization to reflect any client's annual taxable income, tax filing status and state of residence. Visit **eatonvance.com** for the most up-to-date illustrations of how these variables can affect your clients' portfolios.

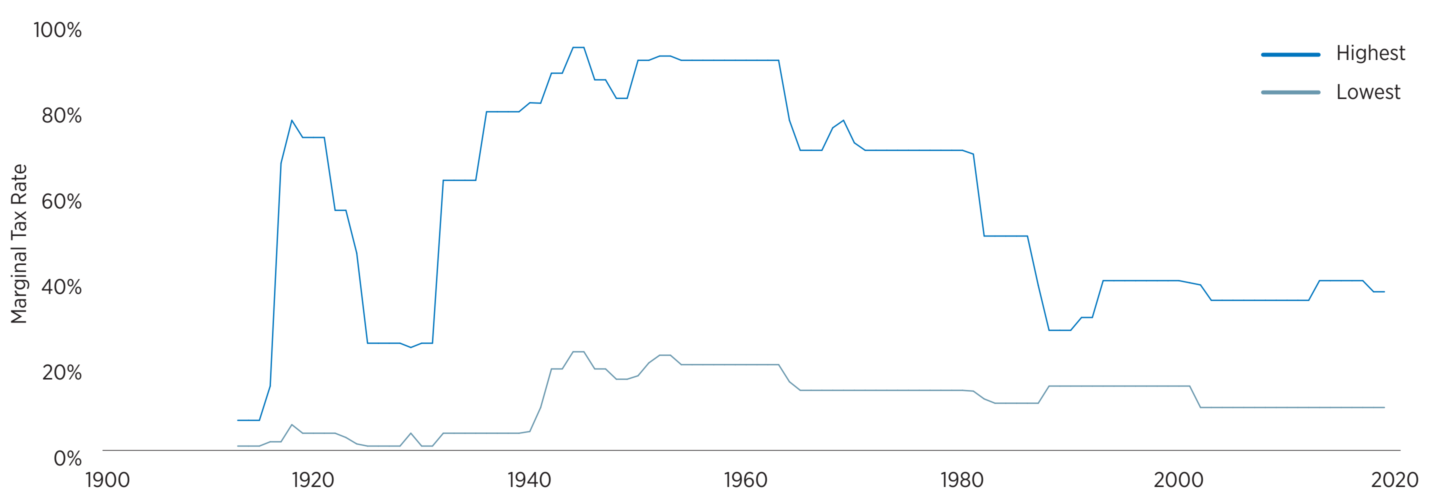
Tax rates are not static, and neither are tax brackets and filing status. Many investors migrate from one filing status to another or from one tax bracket to another every few years, which can make their tax liabilities unpredictable. Factor in changes in tax law and you have a recipe for "tax volatility," a portion of which is illustrated in Exhibit F.

The implication for advisors and investors is that assumptions based on a previous year's tax experience may not be accurate for the current year. Smoothing this tax volatility is the subject of our next section.

**Questions You Might Ask a Client to Stimulate Discussion**

- What do you think detracts more from investment performance: fees or taxes?
- What do you think taxes cost you in investment returns each year?
- Do you typically look for ways to reduce the amount you pay in taxes each year?
- If you received a large tax refund, would you be more likely to spend it or invest it? (There are other possible answers, of course, like saving it, but consider limiting the client to these two choices.)
- Have you ever paid a professional to obtain better results than you could obtain yourself? For example, do you pay a CPA in order to reduce the taxes you pay, or an estate attorney to construct a more legally successful estate plan?
- Have you personally experienced the power of compounding, either through the growth of savings or the accumulation of debt?
- Who do you think cares more about your long-term comfort: you or the government?

Exhibit F
"Tax Volatility" – Historical Marginal Tax Rate for Highest and Lowest Earners




Source: National Taxpayers Union Foundation, "How Have the Top and Bottom Income Tax Brackets Changed Over Time?" 2019, https://www.ntu.org/foundation/tax-page/how-have-the-top-and-bottom-income-tax-brackets-changed-over-time. Accessed September 24, 2019.

## 2. Asset Location Can Be as Important as Asset Allocation

Choosing the right asset class at the right time — asset allocation — is certainly important because your return on any asset class you don't own is ZERO. Unless you're a big believer in market timing, you probably do what most advisors do and recommend that clients invest in multiple asset classes and multiple management styles so that some part of the portfolio is always doing well even if other parts are not.

In its landmark work on quantifying "Advisor Alpha," Vanguard estimates that asset location contributes up to 75 basis points of added value for clients (Exhibit G). Vanguard also notes that spending strategy — which is all about the tax consequences of sales and redemptions, which vary by asset location — contributes up to an additional 110 basis points. Together, that can be up to 185 basis points of added value from making good location and spending decisions.

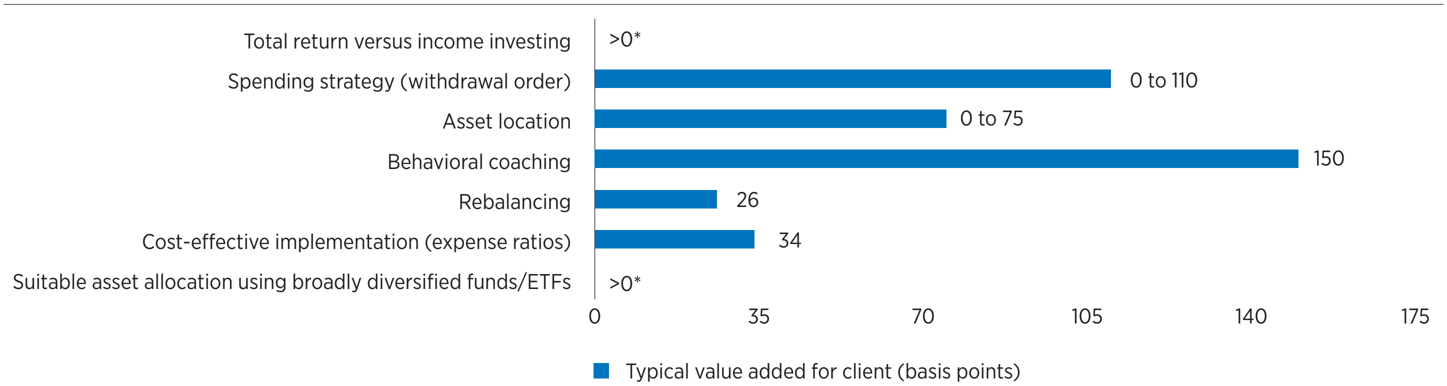
Asset allocation was made much easier, in a way, by ERISA. Pensions were at risk of overconcentration by style, so the style box approach was born as a way of making sure pensions did not miss out on the best-performing area of the market. The style box shown in Exhibit H can represent domestic equity, for example, and a pension plan might invest in each of the boxes.

Many popular approaches to diversifying sources of risk and return in portfolios trace their roots to style box diversification. Like style boxes, they can become a little lopsided over time. Prudent advisors periodically rebalance by selling some of the largest allocations — the allocations that have performed best over the past year — and moving the proceeds into one or more underperforming areas. It is an elegant solution because it puts into practice the age-old wisdom of buying low and selling high.

But there is often a catch. Rebalancing can be very costly in taxable accounts because rebalancing can trigger capital gains taxes. That's why **asset location** is so important for taxable investors. Vehicles that distribute capital gains each year or are used in style box allocations may be better suited for tax-deferred accounts (Exhibits H and I).

Exhibit G

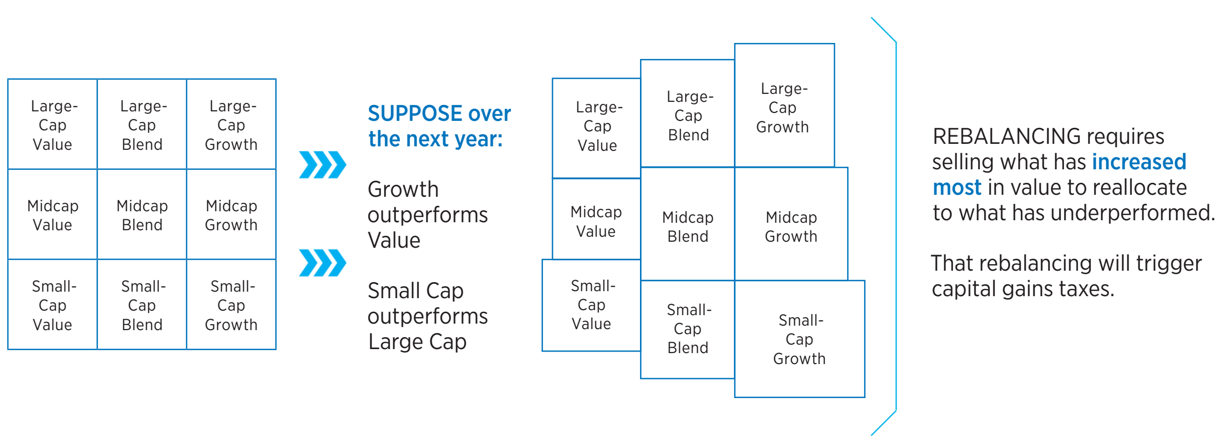
**Vanguard Quantifies the Value-Add of Best Practices in Asset Management**




*Value is deemed significant but too unique to each investor to quantify. Source: Vanguard, "Putting a value on your value: Quantifying Advisor Alpha," February 2019, p4.

Exhibit H

**Portfolio Rebalancing Can Be Costly**




For illustrative purposes only.

One of the first duties of the After-Tax Advisor is to consider asset location. While asset allocation decisions may explain the majority of a client's pretax returns, asset location will strongly influence what remains after taxes. There are three main considerations to determining optimal asset location:

1. The type of account, for example:
   a. Tax-exempt Roth IRA
   b. Tax-deferred employer-sponsored qualified plan, such as a 401(k)
   c. Fully taxable brokerage account
2. The tax efficiency of the investment assets
3. The type and frequency of taxable events the investment(s) will experience

Location decisions, in turn, may influence investment vehicle selection. Classic examples involve the location of bond portfolios: Most municipal bonds can only benefit from their tax-free status outside of tax-deferred or tax-exempt retirement accounts, whereas fully taxable corporate bonds may be best positioned inside accounts that are shielded from annual taxation of income. The power of compounding is most pronounced inside tax-exempt and tax-deferred accounts because all of the annual income can be reinvested (Exhibit I).

Taxes are not just an issue in portfolio rebalancing and account selection. They can also be a factor within an account by affecting strategies with high turnover (Exhibit J).

Exhibit I

**Tax Hierarchy and Asset Location**

| The level of taxes imposed ... | ... and the type of tax ... | ... suggest an asset location preference. |
|---|---|---|
| Highest | Ordinary income<br>Taxable interest<br>Nonqualified dividend income | Roth IRA or Roth 401(k)<br>Traditional IRA or 401(k) |
| Moderate | Short-term capital gains<br>Long-term capital gains<br>Qualified dividend income | Can work almost anywhere with a forward-looking, tax-aware approach, such as using capital losses to reduce taxable capital gains |
| Lowest | Tax-free (certain types of municipal bond income)<br>Exchanges<br>Charitable donations | Taxable brokerage account |

Note: For up-to-date tax treatment of various investment events, please visit the Eaton Vance Parametric Investment Tax Calculator online. The output of this calculator is for educational purposes only and should not be considered investment, legal or tax advice. The output is general in nature and is not intended to serve as the primary or sole basis for investment or tax planning decisions.

Exhibit J

**Estimated Additional Annual Pretax Growth Required to Offset Federal Taxes**

| | Market Growth | | | | |
|---|---|---|---|---|---|
| Turnover | 4% | 6% | 8% | 10% | 12% |
| 5% | 0.35 | 0.48 | 0.58 | 0.68 | 0.76 |
| 10% | 0.61 | 0.84 | 1.05 | 1.23 | 1.39 |
| 25% | 1.12 | 1.60 | 2.04 | 2.45 | 2.83 |
| 50% | 1.68 | 2.48 | 3.23 | 3.97 | 4.67 |
| 60% | 1.89 | 2.80 | 3.67 | 4.52 | 5.36 |
| 75% | 2.21 | 3.28 | 4.33 | 5.37 | 6.40 |
| 100% | 2.76 | 4.14 | 5.51 | 6.89 | 8.27 |

Source: Parametric, 2018. Based on the model proposed in Jeffrey and Arnott (1993). For illustration purposes only. Assumptions: Hurdle determined by setting after-tax preliquidation market value for an active manager with realized gains on turnover equal to a buy-and-hold ETF, both gross of fees; 20-year horizon; short-term capital gains tax rate of 40.8%, long-term capital gains tax rate of 23.8%; and pro-rata gains realization (e.g., for a 50% turnover manager, half of year 2 gains are short term and half are long term). A taxable investor with 50% annual turnover over 20 years would need pretax growth of 8.48% to experience the market's 6% growth after taxes.

To address these challenges, more advisors today are structuring their taxable portfolios using a core-satellite model. Core investments are strategic, long-term allocations that rarely change in weight or composition, such as domestic broad equity market exposure and municipal bond exposure. Satellites include tactical allocations to sectors, regions, styles and alternative assets that typically are not highly correlated to the core. The core-satellite model is most effective when the core provides tax efficiency to offset the tax inefficiency inherent in tactically reallocating among satellites (Exhibit K).

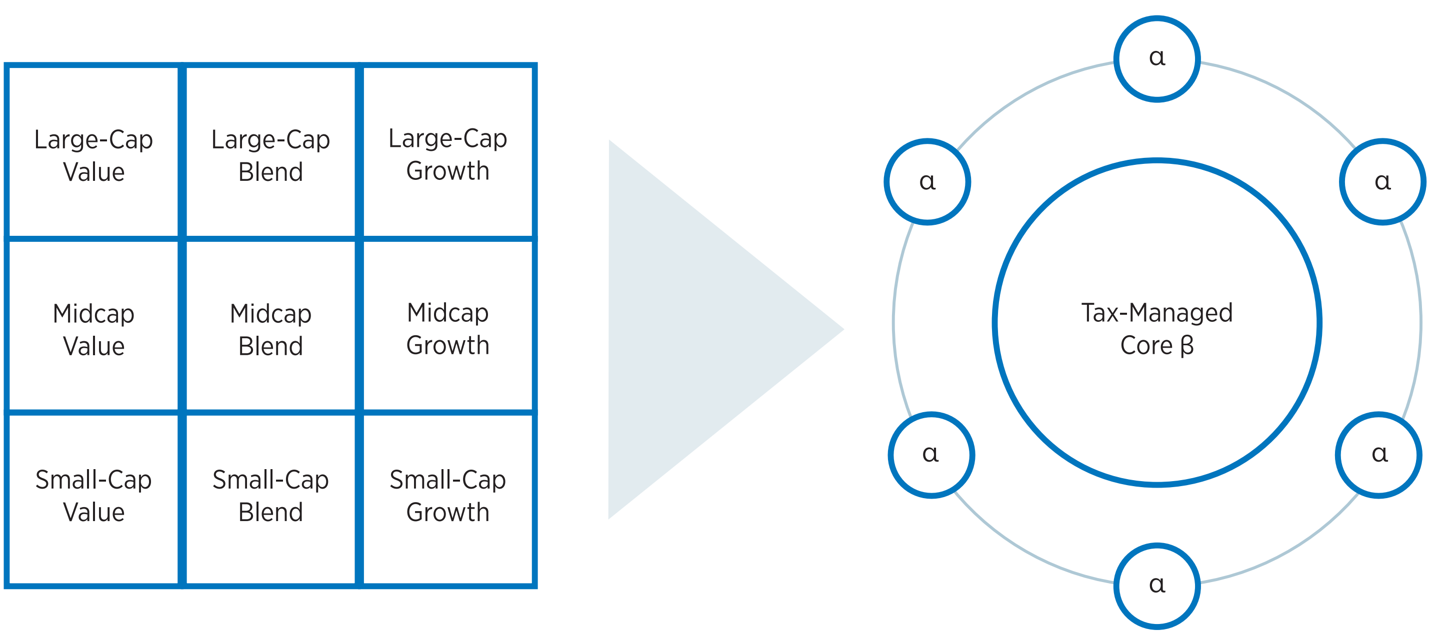
The After-Tax Advisor sees a special opportunity to communicate these benefits to the emerging wealth of Generation X and millennials. Many younger investors have enjoyed a kind of "free ride" if they have selected their own securities successfully after the Great Recession of 2008-2009. Younger self-directed investors may not fully appreciate the tax bill they will face when realizing their gains and may welcome the benefits of a systematic tax-loss harvesting strategy.

**Questions You Might Ask a Client to Stimulate Discussion**

- What do you think is more important: asset allocation or asset location?
- Do you make use of tax-exempt and tax-deferred accounts? How do you invest inside them?
- What has been your history with taxable distributions from mutual funds? From separately managed accounts (SMAs)?
- Do you have any positions in highly appreciated securities? In what investment vehicle(s) are they kept? Why?
- Have you heard the term "tax loss" before? Who really experiences that loss: you or the IRS?
- Do you think about turnover when making investment decisions? Does this inform your asset location decisions?
- Are there any significant gain or loss realization events in your future?
- Have you ever used tax losses to reduce the amount of tax you pay, whether on income or capital gains?
- Have you ever used a store coupon to reduce the price you pay for something? Do you understand how a tax loss can function similarly by reducing the amount of tax you pay?

Exhibit K

**Evolution From Style Box to Tax-Managed Core-Satellite in the Presence Of Taxes**




For illustrative purposes only. α indicates alpha-generating satellite investments. β indicates broad-market beta exposure.

## 3. Uncle Sam Can Be a Coach, Not Just a Referee

There are several tax filing categories, as shown in Appendixes A and B. As income rises, various additional taxes kick in. The After-Tax Advisor should be familiar with these tax filing categories so clients are not surprised at tax time. Do not wait until tax season to have these conversations — being an After-Tax Advisor requires year-round diligence.

Deferring taxable events can also benefit from a reduced tax bracket, as when a client transitions from highly compensated employment to retirement at a lower level of income. Even paying the same rate of tax in the future may be preferable to paying the tax today because the time value of money renders a unit of money, such as a dollar, less valuable in the future than it is today. Clients generally understand the corrosive effects of even mild inflation, just as they understand that they would rather retain custody of their money, with all the possibility of investment growth that ownership entails, for as long as possible.

"Realized capital gains" are gains that happen when an investor sells an asset in a taxable account for more than she originally paid for it. That gain may be subject to short-term or long-term capital gains tax, depending on how much time has passed between the original purchase and the sale. If the asset is sold for less than the original purchase price, the investor may have a realized capital loss.

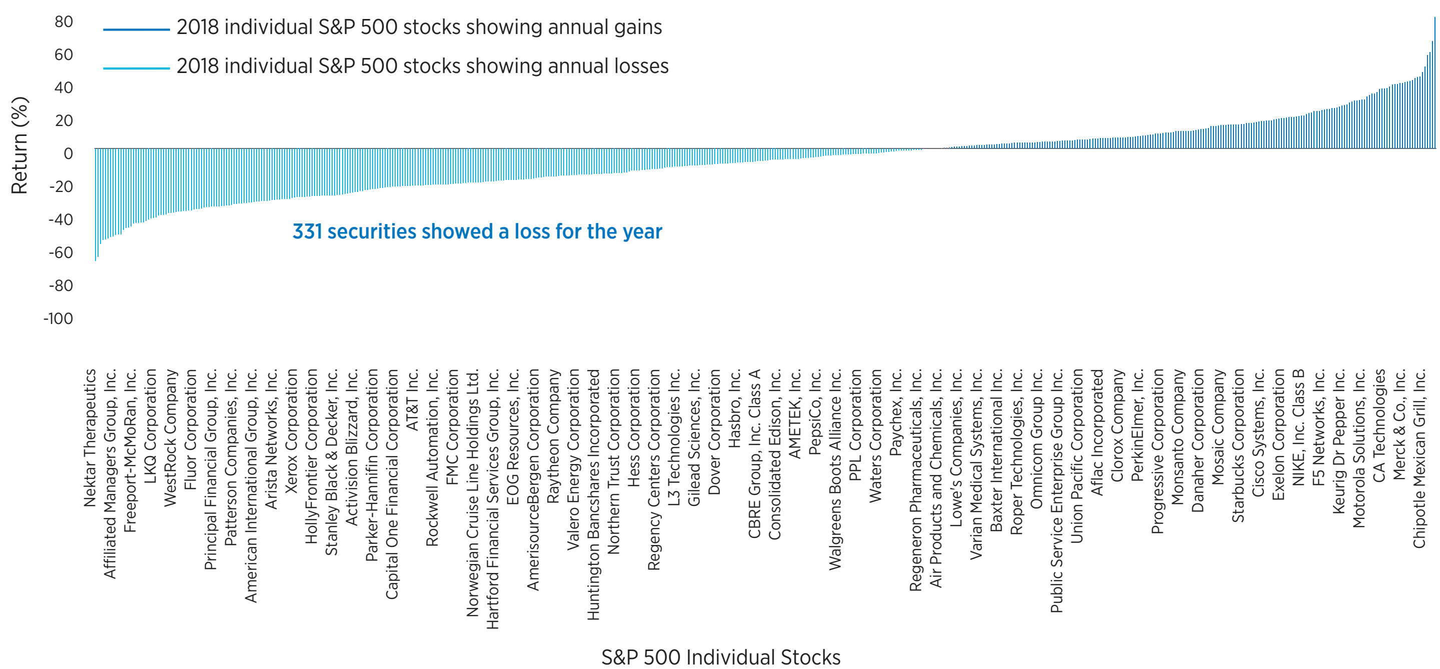
Most advisors are aware that investors can reduce the taxable amount of capital gains by first subtracting any unused capital losses. An investor without realized gains can even use a capital loss to shield a small amount of ordinary income from taxation, an opportunity that may be more valuable to higher-income investors. A client who has losses but no gains can carry the losses forward to one or more future tax years during which there might be gains to offset. This is known as a "tax-loss carryforward."

Talking with clients about "harvesting tax losses" can go off the rails quickly because the only thing many clients hear is "loss." Different word choices can inspire more intentional outcomes. From a client's perspective, isn't harvesting a tax loss really about capturing an opportunity today to keep more of the client's money at some future tax time?

Exhibit L

**Beneficial Tax Losses Can Be Available in Down Markets (S&P 500, 2018)**

The S&P 500® index returned -4.38% and 98% of the stocks in the index experienced a maximum drawdown of 10% or more at some point during the year.




Sources: FactSet, Eaton Vance, as of 12/31/2018. For illustrative purposes. Not a recommendation to buy or sell any security. It is not possible to invest directly in an index. Past performance is not indicative of future results. 2018 was selected for presentation because it is the most recently completed calendar year with negative returns. All investments are subject to risk of loss. Not all index constituents are named above.

Beneficial tax losses are not just available in down markets, (Exhibit L) but also, perhaps surprisingly, in up markets (Exhibit M). By shielding some gains from taxation, tax losses can reduce the amount of tax an investor pays and increase the amount remaining in her pocket. That is when losses are gains.

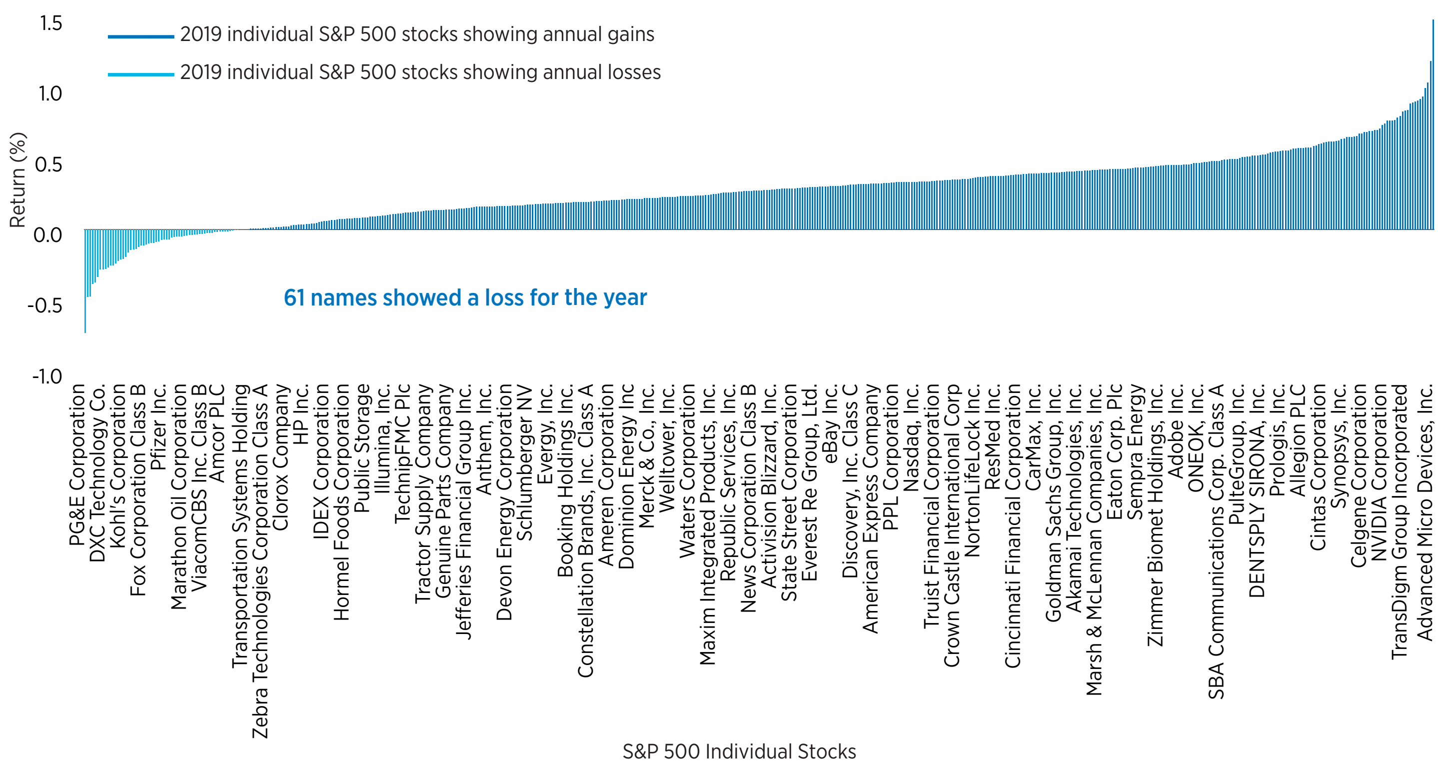
**Questions You Might Ask a Client**

- What is your current tax filing status? Do you expect that to change?
- Do you plan to sell your business in the next 5-10 years? Have you planned for the large tax implications of that sale?
- Do you expect your taxable income to increase or decrease next year? By how much?
- Do you currently pay AMT? Have you ever paid AMT?
- Do you have family members in lower tax brackets?
- Are you charitably inclined? How much do you give to charity each year? In what form?
- Do you currently sit on the board of a foundation or endowment?
- Do you receive equity awards from your employer? What kind?
- Do you participate in a Section 423 employee stock purchase plan (ESPP)?
- Do you have exposure to employer stock in an employer-sponsored qualified plan?
- May I see your incentive compensation statement and company stock plan?
- What opportunities do you currently take to defer payment of taxes into the future?
- What sorts of arrangements have you made to reduce the size of your taxable estate?
- When do you typically review your accounts for tax-loss harvesting opportunities?

Exhibit M

**Beneficial Tax Losses Can Be Available in Up Markets (S&P 500, 2019)**

The S&P 500® index returned 31.49% and 84% of the stocks in the index experienced a maximum drawdown of 10% or more at some point during the year.




Sources: FactSet, Eaton Vance, as of 12/31/19. For illustrative purposes only. Not a recommendation to buy or sell any security. It is not possible to invest directly in an index. Past performance is no guarantee of future returns. 2019 was chosen to illustrate our observation that loss-harvesting opportunities are available during years of high market returns. Actual tax-loss harvesting experience may vary by account and depends on additional factors such as market return, volatility and appreciation level of the account. Not all index constituents are named above.

## Becoming an After-Tax Advisor

You can begin by addressing the concerns already discussed. Check client portfolios with an eye to asset location. Are the investment vehicles you have recommended located in the most tax-favorable accounts? What other available strategies might be appropriate for the unique tax situation of each client? Do you have all the information you need to make the most tax-optimal investment recommendations for each client? Can you identify and express how the changes you recommend can reduce the "drag" taxes exert on portfolio performance?

Next, consider what other resources might be available to you. These could include:

- Each client's tax advisor and legal advisor
- Statements illustrating assets you do not administer, such as 401(k) plan assets or equity incentive compensation
- Expertise within your firm, such as tax advisory teams
- Expertise available from third-party solutions providers, such as Eaton Vance and Parametric

Finally, consider how you can best assist your clients. Tax planning is not just a tax-season or year-end activity. Opportunities are available year-round, and the After-Tax Advisor helps clients identify them by thinking ahead.

Consider the calendar of suggested monthly themes shown in Exhibit N, keeping our three tax tenets in mind:

1. **Taxes can be a client's easiest investment "fee" to reduce**
2. **Asset location can be as important as asset allocation**
3. **Uncle Sam can be a coach, not just a referee**

## Engaging Current Clients as an After-Tax Advisor

**January:** Contact clients who receive equity awards and offer to review incentive compensation statements and vesting schedules and plan for option exercise. Clients with incentive stock options (ISOs) might wish to exercise early in the tax year because an ISO exercise is an alternative minimum tax (AMT) preference item unless the shares are disposed of before year-end. If the stock price declines during the year, for example, a disposition before year-end could eliminate AMT concerns and capture a valuable short-term capital loss.[1] Partner with clients' CPAs to be sure long-term assets have correct cost basis information.

**February:** Help gather and review all tax-related forms (W-2s, 1099s, K-1s, etc.) before clients send them to their tax professionals. Raise questions for clients to submit to their CPAs. Identify possible planning areas to review after taxes are filed.

**March:** Schedule and conduct retirement plan progress reviews with your clients. Identify any tax planning gaps and/or opportunities for greater tax efficiency.

**April:** Request copies of IRS Form 1040 and IRS Schedules from your clients. Use them to identify opportunities for greater tax efficiency via IRAs, 401(k)s, family gifting, RMDs, charitable giving, etc.

**May:** Help clients adjust withholding to align more closely with next year's expected tax liability. Remember that clients will have only 7-8 months to make up 12 months of potential underwithholding. Communicate with clients' CPAs as needed.

**June:** Help clients anticipate systematic tax-loss harvesting opportunities for the remaining six months of the year. Review any gains that have already been realized and attempt to estimate gains that might be realized in the next six months.

**July:** Review estate plans to be sure any changes in family circumstances have been incorporated into plans as well as whether there are any changes that could improve legacy outcomes in the face of estate tax issues.

**August:** Discuss charitable and legacy intentions. Introduce clients to the potential tax advantages of donor-advised funds, pooled income funds and other charitable vehicles.

**September:** Identify client concentrations, such as employer stock or inherited stock, and suggest appropriate diversification strategies that can help reduce clients' tax exposure.

**October:** Discuss any portfolio adjustments clients could consider that would reflect potential tax policy changes at local, state and national federal levels.

**November:** Review clients' asset location strategies. Identify any possible adjustments that could help improve their after-tax return potential.

**December:** Keep in mind that year-end has shorter trading months due to holidays. Help clients identify last-minute opportunities to reduce their anticipated tax bills before the tax year ends – adjust withholding on year-end bonuses to avoid penalty, make tax-deductible charitable contributions, capture losses to reduce capital gains or avoid AMT on ISOs. Communicate any loss carryforwards to clients' CPAs.

[1] Internal Revenue Service, Instructions for Form 6251, 2020, p. 4 (Line 2i - Exercise of Incentive Stock Options).

## Attracting New Clients as an After-Tax Advisor

**January:** Connect with executives who receive equity awards and offer to help them understand their exposures to employer stock. Offer to review prospective clients' incentive compensation statement (equity award statement). Identify any potential tax-related issues/opportunities.

**February:** Ask prospective clients whether they have an After-Tax Advisor – then explain the advantages of having a tax-aware financial advisor on their "tax team."

**March:** Ask your prospective clients when they last had a retirement plan review with their advisors. Offer to do one with a tax-forward, after-tax focus.

**April:** Introduce and position yourself to prospective clients as an After-Tax Advisor, one who thinks ahead and year-round about helping them grow after-tax wealth.

**May:** Ask prospective clients whether there were any unpleasant surprises during tax preparation and/or filing this year.

**June:** Discuss the potential value of tax losses with prospective clients and identify which investment vehicles can distribute realized losses.

**July:** Ask prospective clients if they have any "dusty trusts" that need revisiting as personal circumstances, tax laws and financial goals evolve.

**August:** Ask prospective clients if they have a charitable giving strategy and, if so, whether it's optimized for tax efficiency.

**September:** Ask prospective clients if they have any investment concentrations, including 401(k) and equity awards. Offer to meet with their accountants.

**October:** Offer to review prospective clients' bond portfolios. Discuss the potential tax, income and diversification benefits of a laddered municipal bond strategy.

**November:** Ask prospective clients if they know how important asset location can be for growing after-tax wealth – then explain how this strategy works.

**December:** Ask prospective clients whether their current advisors are making the most of year-end opportunities (such as tax-loss harvesting) to reduce their overall tax exposures and optimize their after-tax return potentials.

Exhibit N

### Year-Round Tax Planning, Simplified

| January | February | March | April |
|---|---|---|---|
| Equity awards | CPA/tax team connections | Retirement plans/asset allocation/spending strategy | Federal and state income tax filing |
| **May** | **June** | **July** | **August** |
| Next year's tax outcome vs. this year's tax reality | Midyear tax-loss harvesting | Estate and legacy planning | Tax-smart charitable donations |
| **September** | **October** | **November** | **December** |
| Concentrated stock positions | Election themes (federal, state, local) | Asset location vs. asset allocation | Year-end loss harvesting |

Becoming an After-Tax Advisor means thinking ahead and thinking year-round. Applying these tax tenets can differentiate you from every other advisor your clients have had, demonstrate the value of the fee you earn and align your interests with those of your clients. You need not be a tax expert or legal expert to provide tax-aware investment advice. Failing to become an After-Tax Advisor, on the other hand, makes you vulnerable to commoditization and your practice vulnerable to decay.

So don't delay; start inspiring intentional outcomes today. Become the After-Tax Advisor your clients want and need.

Appendix A
## Selected Simplified Tax Tables

**Tax brackets and rates, 2021**
(Adjusted for inflation annually thereafter; consult Eaton Vance Parametric Investment Tax Calculator for the latest rate information)

| Tax Rate | Single | Married Filing Jointly | Married Filing Separately | Head of Household |
|---|---|---|---|---|
| 10% | $0–$9,950 | $0–$19,900 | $0–$9,950 | $0–$14,200 |
| 12% | $9,951-$40,525 | $19,901-$81,050 | $9,951-$40,525 | $14,201-$54,200 |
| 22% | $40,526-$86,375 | $81,051-$172,750 | $40,526-$86,375 | $54,201-$86,350 |
| 24% | $86,376-$164,925 | $172,751-$329,850 | $86,376-$164,925 | $86,351-$164,900 |
| 32% | $164,926-$209,425 | $329,751-$418,850 | $164,926-$209,425 | $164,901-$209,400 |
| 35% | $209,426-$523,600 | $418,851-$628,300 | $209,426-$314,1510+ | $209,401-$523,600 |
| 37% | $523,601+ | $628,301+ | $314,151+ | $523,601+ |

**Additional Medicare tax, 2021** (Imposed on wages and compensation over these threshold amounts)

| Tax Rate | Single | Married Filing Jointly | Married Filing Separately | Head of Household |
|---|---|---|---|---|
| 0.9% | $200,000 | $250,000 | $125,000 | $200,000 |

**Net investment income tax** (Imposed on lesser of net investment income or the excess of modified adjusted gross income over these threshold amounts)

| Tax Rate | Single | Married Filing Jointly | Married Filing Separately | Head of Household |
|---|---|---|---|---|
| 3.8% | $200,000 | $250,000 | $125,000 | $200,000 |

**Long-term capital gains tax and qualified dividend income tax** (Imposed on net long-term capital gains when the lesser of net investment income or taxable income is in these ranges. Net short-term capital gains and nonqualified dividends are taxed at ordinary income rates.)

| Tax Rate | Single | Married Filing Jointly | Married Filing Separately | Head of Household |
|---|---|---|---|---|
| 0% | $0–$40,400 | $80,800 | $0–$40,400 | $0–$54,100 |
| 15% | $40,401-$445,850 | $80,801-$501,600 | $40,401-$250,800 | $54,101-$473,750 |
| 20% | $445,851+ | $501,601+ | $250,801+ | $473,751+ |

**Standard deduction** (Personal exemption has been eliminated)

| | Single | Married Filing Jointly | Married Filing Separately | Head of Household |
|---|---|---|---|---|
| | $12,550 | $25,100 | $12,550 | $18,800 |

Source: Tax Foundation, "2021 Tax Brackets," October 2020.

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Appendix B

## Important Tax Thresholds, 2021

| Income | Single | Married Filing Seperately | Married Filing Jointly | Head of Household |
|---|---|---|---|---|
| Phaseout of alternative minimum tax exemption begins | **$523,600** | **$523,600** | **$1,047,200** | **$523,600** |
| Higher long-term capital gains and qualified dividend income rates | **$445,850** | **$250,800** | **$501,600** | **$473,750** |
| Additional **0.9%** Medicare tax and additional **3.8%** net investment income tax | **$200,000** | **$125,000** | **$250,000** | **$200,000** |

Source: Tax Foundation, "2021 Tax Brackets," October 2020, www.irs.gov/taxtopics/tc560 and www.irs.gov/taxtopics/tc559. All breakpoints shown are for 2021.

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