

# Tax Management Services for Select UMA<sup>®</sup>

Seeking to Improve After-Tax Returns With Unified Managed Accounts

According to the Investment Company Institute, mutual funds distributed nearly half a trillion dollars in capital gains to shareholders in 2018. This figure has been in an upward trend since the market bottomed in 2009.<sup>1</sup>

The issue is that professional investment managers seek to beat their benchmarks and maximize returns by taking advantage of prevailing market conditions, often with little or no regard for tax consequences. Mutual funds and separately managed accounts often exhibit substantial portfolio turnover as positions are bought and sold in an effort to generate gains, some of which are short-term and taxable at rates as high as 37%.

For investors seeking professional investment management and diversification with an awareness to mitigate tax liability, a unified managed account with optional Tax Management Services may offer a viable solution.

## HOW MUCH OF YOUR RETURNS ARE YOU LOSING TO TAXES?<sup>2</sup>

Short-term gains on assets held for less than one year are taxed at ordinary income rates:

MARGINAL TAX RATE	SINGLE	MARRIED FILING JOINTLY
22%	\$41,775-\$89,075	\$83,550-\$178,150
24%	\$89,075-\$170,050	\$178,150-\$340,100
32%	\$170,050-\$215,950	\$340,100-\$431,900
35%	\$215,950-\$539,900	\$431,900-\$647,850
37%	\$539,900+	\$647,850+

## 2022 CAPITAL GAINS TAX RATES<sup>2</sup>

Dividends and long-term gains on assets held for more than one year are taxed at:

LONG-TERM CAPITAL GAINS RATE	SINGLE TAXPAYERS	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD	MARRIED FILING SEPARATELY
0%	Up to \$41,675	Up to \$83,350	Up to \$55,800	Up to \$41,675
15%	\$41,676-\$459,750	\$83,351-\$517,200	\$55,801-\$488,500	\$41,676-\$258,600
20%	\$459,751+	\$517,201+	\$488,501+	\$258,601+

State and local tax rates vary and may add to the federal rates shown above. In addition, certain net investment income is subject to an additional 3.8% surtax (often referred to as the Medicare surtax) to the extent your modified adjusted gross income exceeds specific thresholds. Morgan Stanley is not a tax advisor. Consult your tax professional for details.

# Tax Management Services in Action

By choosing the Tax Management feature of Select UMA, you benefit from the expertise of a Tax Management overlay manager who oversees and coordinates account activities. Specifically, he or she ensures that the following measures are taken to reduce your current tax liability and attempts to enhance your after-tax return in accordance with your Tax Management Services agreement:



**TAX-EFFICIENT TRADING.** Over the years, your portfolio managers have purchased the shares of a specific company multiple times. Now one of them wishes to take some profits by liquidating part of the position. Which shares should the manager sell?

Some more traditional managed account platforms may employ a First-In, First-Out (FIFO) methodology and sell the lot that was purchased first. With Select UMA Tax Managed accounts, your Tax Management overlay manager uses a “best tax outcome” methodology instead of FIFO which allows you to keep lower cost holdings in your account. When a portfolio manager makes changes, or if you submit a service request, the overlay manager will look to sell lots at a loss first.



**CERTAIN WASH SALE ADHERENCES.** Your *large-cap growth* investment manager sells a stock at a loss. A few days later, your *large-cap value* investment manager buys the same stock because he or she believes that it is now undervalued in the marketplace.

You have just run afoul of IRS wash sale rules. A wash sale occurs when you purchase a stock within 30 days before or after selling it. Any loss realized from the sale is deferred for tax purposes.

Within a Select UMA Tax Managed account, we take precautions to help you avoid this all-too-common scenario. When a stock is sold for a loss, that security will be blocked from purchase for 30 days and only bought back 31 days after the sale. If you have more than one equity SMA investment manager in the UMA, that security will be blocked for all investment managers. While we take these precautions when tax loss harvesting in your account, a disallowed loss is still possible, for example if a security is purchased by one manager and subsequently sold by another within a 31 day period.



**TAX LOSS HARVESTING.** The end of the year has become known as “tax swap season” for many investors. It’s the time when they search their portfolios for losses that can be used to offset the gains they realized earlier in the year, potentially decreasing the taxes they owe.

With a Select UMA Tax Managed account, if your account has a net realized gain at the time of the scheduled tax harvesting (once per quarter), Tax Management will attempt to offset the gain by selling positions that are currently held at a loss. This allows the account to take advantage of market movement throughout the year and not just at year-end like a non-Tax Managed account.

## Harvesting Tax Savings

Realizing losses can pay off at tax time by offsetting gains throughout the year and generating excess losses to be carried forward for use in subsequent years.

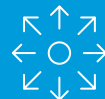
USE	TO OFFSET
Short-Term Losses	<b>Short-Term Gains</b>
Long-Term Losses	<b>Long-Term Gains</b>
Leftover Losses, either Short or Long Term	<b>Leftover Gains, either Short or Long Term</b>
Remaining Losses	<b>Excess losses that can be used to offset offset \$3,000 of ordinary income per year and/or carried forward for use in subsequent years.</b>

### FOR EXAMPLE



Your UMA portfolio has generated \$25,000 in realized gains.

We review your entire portfolio and identify several positions with unrealized losses totaling **\$25,000.**



We sell the losing positions, thereby providing you with losses to offset your gains.



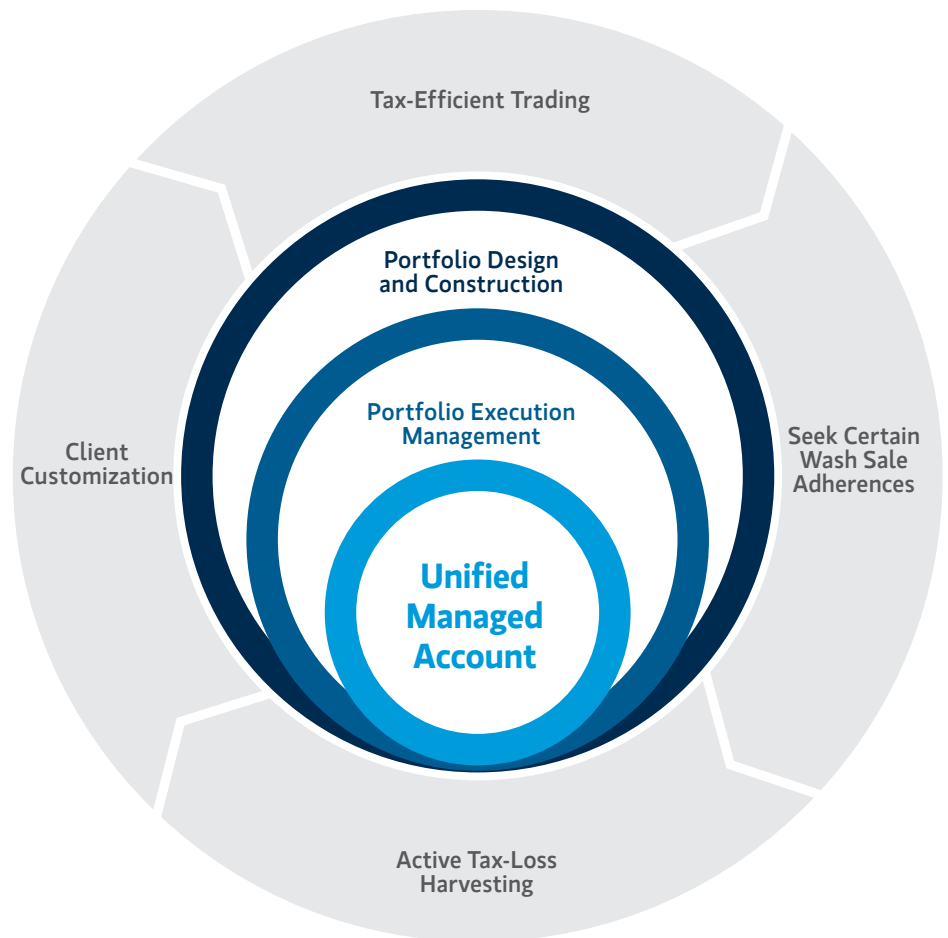
We invest the proceeds in exchange-traded funds (ETFs) so you will still have market exposure and avoid sacrificing potential growth.



After the **30-day** wash sale period elapses, we sell the ETFs and repurchase the sold positions, unless the securities are no longer held in the investment manager's model.

# Tax Management Investment Process

Consulting Group's Tax Management Services team manages investment products and provides a suite of services to Select UMA clients with specialized tax needs. The primary offering is a proprietary investment program that applies a variety of tax overlay strategies designed to minimize current tax gains and enhance after-tax returns.



### Set Specific Limits on Gains and Taxes

Investors who are especially tax-sensitive can set limits on taxes and/or realized gains in their Select UMA. For example, imagine you wish to realize no more than \$50,000 in gains this year. When your realized gains reach this amount, we prevent any sales your portfolio managers might initiate that would increase your gains further. At the same time, we watch for realized losses that might be used to offset gains realized from selling additional holdings. Our objective is to keep you as tax-neutral as possible and preserve your investment returns by minimizing current tax liability. This customized approach offers a variety of other applications:

#### TRANSITIONING HOLDINGS TO

**SELECT UMA.** Many clients establish a Select UMA account with existing securities. If you set a tax mandate for the account, the overlay team will sell to that limit. Nonmodel or overweight positions left in the account will only be sold if we have losses to offset the gains. By setting a tax mandate, the account can be restricted from selling and buying securities that the money manager adds or takes away from its model. We will try to realize the gains over a few years, to offset the tax impact all at once.

#### LIQUIDATING CONCENTRATED

**POSITIONS.** Many of our clients realize that an inordinate amount of their overall wealth is tied up in the stock of their employer. They realize they should diversify their holdings, but often, they are reluctant to do so because of tax implications. We work with clients to establish an acceptable realized-gains limit for the year and fund their Select UMA with the concentrated position, cash and other holdings. The concentrated position is sold gradually with gains matched against losses realized by selling other positions. In fact, when the realized-gains

limit is reached, we can delay further selling concentrated shares until we can identify offsetting losses. Clients employing this approach can diversify their holdings over time in an effort to avoid unexpected tax consequences.

**VALUE-ALIGNED SOLUTIONS.** Personalize your investment portfolio by adding reasonable restrictions on a wide range of investments (e.g., individual stocks, sectors, industries, personal beliefs) that align with your values. You control how the proceeds are put to work. Choose from reinvesting the restricted funds in approved ETFs across the remaining positions in your portfolio, or keeping the funds in cash.

Finally, Select UMA® is available on a nondiscretionary, firm-discretionary or Financial Advisor discretionary basis. You decide whether you want to make your own asset allocation and investment product selection decisions or relinquish them to Morgan Stanley, or your Financial Advisor.



#### REQUIREMENTS FOR TAX MANAGEMENT SERVICES

**Tax Management Services are offered in a Unified Managed Account that meets the following criteria:**

Account must be taxable and meet investment product minimums (e.g. SMAs, Firm Discretion, etc.).

Custom, Strategic, Tactical Portfolios and all discretion levels are eligible.

Certain tax-inefficient investment products may be discouraged from use.

**Your Morgan Stanley Financial Advisor will be happy to provide additional information about these services.**

# What Are Unified Managed Accounts?

As an experienced investor, you may participate in a number of professionally managed investments, including mutual funds, exchange-traded funds and separately managed accounts. Often, these vehicles are housed in multiple accounts, each of which generates its own statements, trade confirmations and performance reports.



Multiple accounts can also mean multiple fees, overlapping securities positions and fragmented asset allocations that don't consider your overall objectives, time frame and risk tolerance.

**A UNIFIED MANAGED ACCOUNT (UMA),** as its name implies, is an account in which you can maintain numerous investments in a convenient, comprehensive portfolio. Morgan Stanley Select UMA® goes several steps further by offering a Tax Management Services option.

## How Do Unified Managed Accounts Work?

Morgan Stanley has created an open architecture platform where investors can harness intellectual capital from hundreds of sources, both inside and outside of the firm, adding multiple layers of professional management for each portfolio. Depending on your objectives, time frame and risk tolerance, you or your Financial Advisor may choose an appropriate allocation model and implement it with the numerous mutual funds, exchange-traded funds and separately managed accounts available to you. If you prefer, you can design your own allocation across the asset classes and investment categories you deem necessary to reach your objectives. With any Select UMA account, you obtain the services of an overlay portfolio manager and can benefit from a number of immediate advantages:

- A single comprehensive asset allocation that guides portfolio structure.
- Consolidated performance reporting that helps you evaluate not only individual investments, but also your entire portfolio.
- A single monthly statement and year-end tax summary to simplify record-keeping and facilitate tax preparation.
- Disciplined rebalancing that adjusts your portfolio for sizable allocation shifts and returns that allocation to its original proportions.
- Account oversight that watches for overlapping positions in your UMA investments and helps you avoid overexposure to specific securities, industries and economic sectors.
- Optional Tax Management to help you preserve investment returns and potentially reduce current tax liability.



# Experience Matters

Morgan Stanley Select UMA® was developed by the firm's Consulting Group, an acknowledged leader in investment manager analysis, selection and monitoring for over 45 years. Most investment managers chosen for Select UMA have met the firm's demanding standards of performance, style consistency and organizational depth and stability.

Our Select UMA Tax Management Services team is comprised of professionals with extensive asset management and portfolio construction experience. We were among the first in the industry to combine tax management with UMAs, and remain committed to helping our clients improve their investment return potential by decreasing their current tax liability.

<sup>1</sup>Investment Company Institute, 2019 Factbook.

<sup>2</sup>The tax information herein is based on laws in effect as of December 10, 2021, for use in filing 2022 tax returns in 2023.

Clients may elect Tax Management Services for the account by notifying their Financial Advisor, and indicate what Maximum Tax or Realized Capital Gain Instruction is desired for the account, if any. The Tax Management Services Terms and Conditions attached to the Morgan Stanley Smith Barney LLC Select UMA ADV brochure as Exhibit A will govern Tax Management Services in the account. Review the Morgan Stanley Smith Barney LLC Select UMA ADV brochure carefully with your tax advisor. Tax Management Services are not available for all accounts or clients and may adversely impact account performance. Tax Management Services do not constitute tax advice or a complete tax-sensitive investment management program. There is no guarantee that Tax Management Services will produce the desired tax results.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Smith Barney LLC Financial Advisors or Private Wealth Advisors do not

provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning, and their attorney for matters involving trust and estate planning and other legal matters.

Investing in the markets entails the risk of market volatility. The value of all types of securities, including mutual funds and exchange-traded funds, may increase or decrease over varying time periods.

Diversification and asset allocation do not assure a profit or protect against loss. Past performance is not a guarantee of future results.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

Please see the Morgan Stanley Smith Barney LLC Select UMA Form ADV Wrap Fee Brochure (the "Morgan Stanley ADV") for more information on the Select UMA Investment Advisory Program. The Morgan Stanley ADV is online at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

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