# Tax-free Investing

## It’s Not What You Make, It’s What You Keep

Edward Jones®
MAKING SENSE OF INVESTING

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# Types of Tax-advantaged Investments

Individual bonds

Unit investment trusts (UITs)

Mutual funds

Exchange-traded funds (ETFs)

Traditional and Roth IRAs

401(k) and 403(b)

Life insurance

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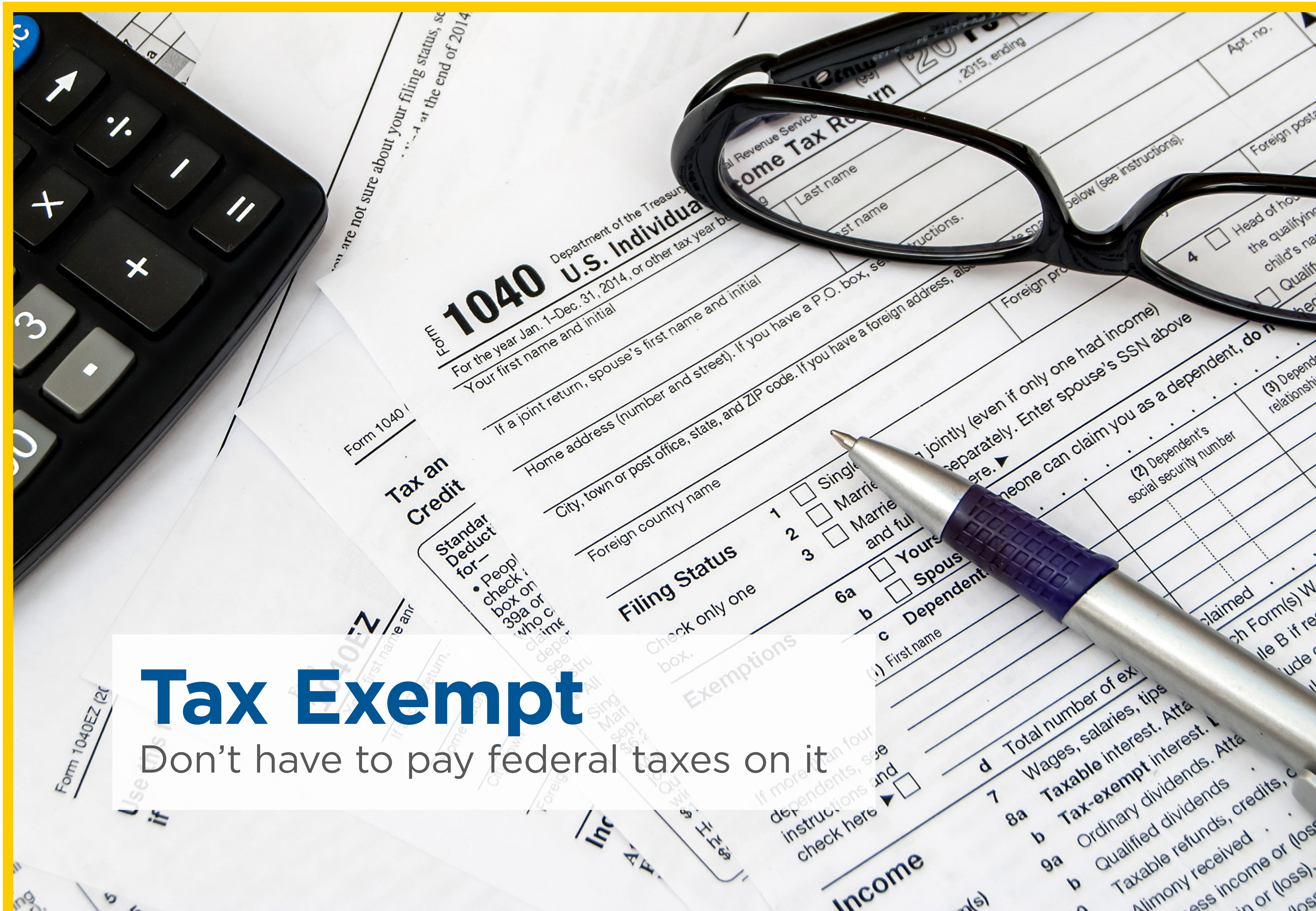


# Tax Exempt

Don't have to pay federal taxes on it

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# Muni Bonds

## Benefit large, community-based projects

- Airports
- Schools
- Hospitals
- Public transportation

## Benefits for investors

- Free from federal income tax and potentially state tax
- Possibility of lower taxes

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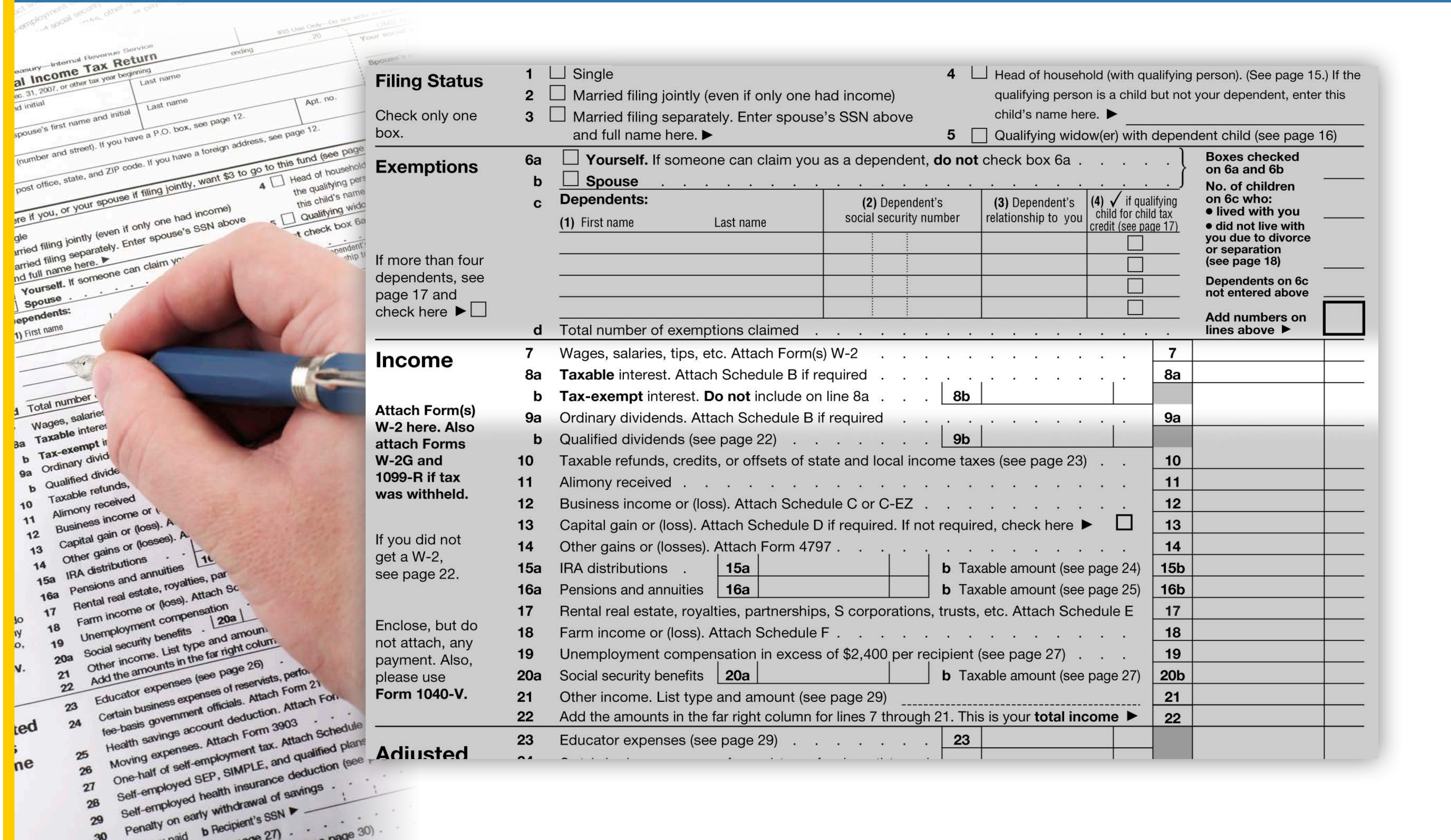
# IRS Form 1040



**Filing Status**

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (see page 16)

**Exemptions**

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**
c **Dependents:**

| (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if qualifying child for child tax credit (see page 17) |
|---|---|---|---|
| | | | ☐ |
| | | | ☐ |
| | | | ☐ |
| | | | ☐ |

If more than four dependents, see page 17 and check here ▶ ☐

d Total number of exemptions claimed

**Boxes checked on 6a and 6b**
**No. of children on 6c who:**
**● lived with you**
**● did not live with you due to divorce or separation (see page 18)**
**Dependents on 6c not entered above**
**Add numbers on lines above ▶**

**Income**

**Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.**

If you did not get a W-2, see page 22.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 — 7
8a **Taxable** interest. Attach Schedule B if required — 8a
b **Tax-exempt** interest. **Do not** include on line 8a — 8b
9a Ordinary dividends. Attach Schedule B if required — 9a
b Qualified dividends (see page 22) — 9b
10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23) — 10
11 Alimony received — 11
12 Business income or (loss). Attach Schedule C or C-EZ — 12
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ — 13
14 Other gains or (losses). Attach Form 4797 — 14
15a IRA distributions — 15a — b Taxable amount (see page 24) — 15b
16a Pensions and annuities — 16a — b Taxable amount (see page 25) — 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E — 17
18 Farm income or (loss). Attach Schedule F — 18
19 Unemployment compensation in excess of $2,400 per recipient (see page 27) — 19
20a Social security benefits — 20a — b Taxable amount (see page 27) — 20b
21 Other income. List type and amount (see page 29) — 21
22 Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ — 22

**Adjusted**

23 Educator expenses (see page 29) — 23

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# Reducing Your Taxable Income

- Tax advantaged bonds
- Tax advantaged mutual funds
- Tax advantaged ETFs
- Tax advantaged UITs
- Retirement accounts, such as IRAs, 401(k)s and 403(b)s

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# Tax Freedom Day

| Historical Tax Freedom Days | |
|---|---|
| 2010 | April 11 |
| 2011 | April 11 |
| 2012 | April 13 |
| 2013 | April 18 |
| 2014 | April 21 |
| 2015 | April 24 |
| 2016 | April 24 |
| 2017 | April 23 |
| 2018 | April 19 |
| 2019 | April 16 |

Source: Tax Foundation. Tax Foundation calculations are based on data from the Bureau of Economic Analysis, Congressional Budget Office, Joint Committee on Taxation, Office of Management and Budget, Internal Revenue Service, Congressional Research Service and National Bureau of Economic Research.

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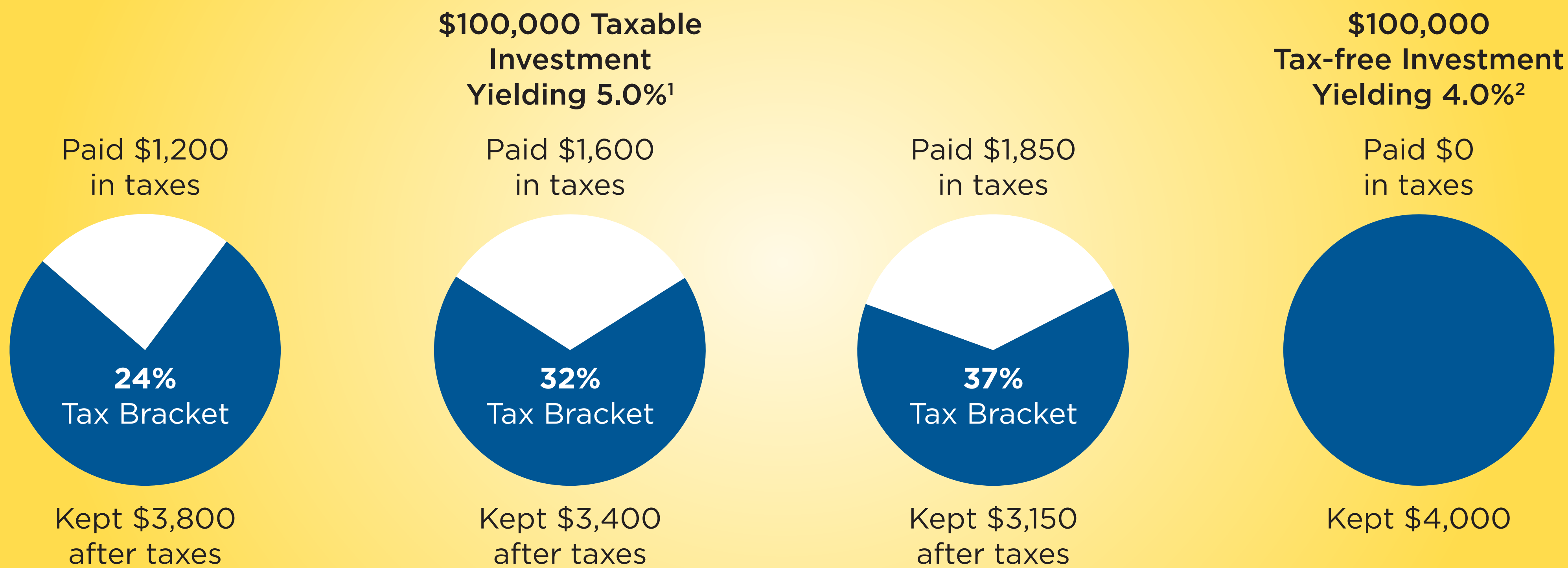
# Tax-free vs. Taxable Comparison

## Tax Savings




This chart is for illustrative purposes only; it does not represent the performance of any available mutual fund.

1 Assumes a one-year holding period, a fixed rate of return, no fluctuation in principal and the stated federal income tax rates. State and local taxes and the effect of the alternative minimum tax are not reflected. Fund dividends and principal value will vary with market conditions.

2 Assumes a one-year holding period, a fixed rate of return and no fluctuation in principal. Fund dividends and principal value will vary with market conditions. Dividends are generally subject to state and local taxes, if any. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

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# 2020 Tax Brackets

| Single Return Taxable Income | Federal Tax Bracket | Joint Return Taxable Income |
|---|---|---|
| $0 – $9,875 | 10% | $0 – $19,750 |
| $9,876 - $40,125 | 12% | $19,751 - $80,250 |
| $40,126 - $85,525 | 22% | $80,251 - $171,050 |
| $85,526 - $163,300 | 24% | $171,051 - $326,600 |
| $163,301 - $207,350 | 32% | $326,601 - $414,700 |
| $207,351 - $518,400 | 35% | $414,701 - $622,050 |
| Over $518,400 | 37% | Over $622,050 |

Source: U.S. Master Tax Guide

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# Taxable vs. Tax-free

| Tax-free Yield | Federal Income Tax Rate and Taxable-equivalent Yields | | | | | | |
|---|---|---|---|---|---|---|---|
| | 10% | 12% | 22% | 24%* | 32%* | 35%* | 37%* |
| 2.00 | 2.22% | 2.27% | 2.56% | 2.77% | 3.12% | 3.27% | 3.38% |
| 3.00 | 3.33% | 3.41% | 3.85% | 4.16% | 4.67% | 4.90% | 5.07% |
| 4.00 | 4.44% | 4.55% | 5.13% | 5.54% | 6.23% | 6.54% | 6.76% |
| 5.00 | 5.56% | 5.68% | 6.41% | 6.93% | 7.79% | 8.17% | 8.45% |

* These yields include the 3.8% Affordable Care Investment Tax in addition to the Marginal Tax Rate where applicable.

Source: Edward Jones

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# Four Ways to Own Muni Bonds

Individual bonds

UITs

Mutual funds

ETFs

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# Individual Bond Benefits

- Can be exempt from state and local taxes
- Semiannual payments at a fixed interest rate
- Fixed maturity date
- May yield more than a UIT of similar bonds
- Minimum purchase: $5,000 and can be purchased in $5,000 increments
- Bondholders will receive par value back if bonds mature or are called
- As prices rise or fall, bond payments remain constant

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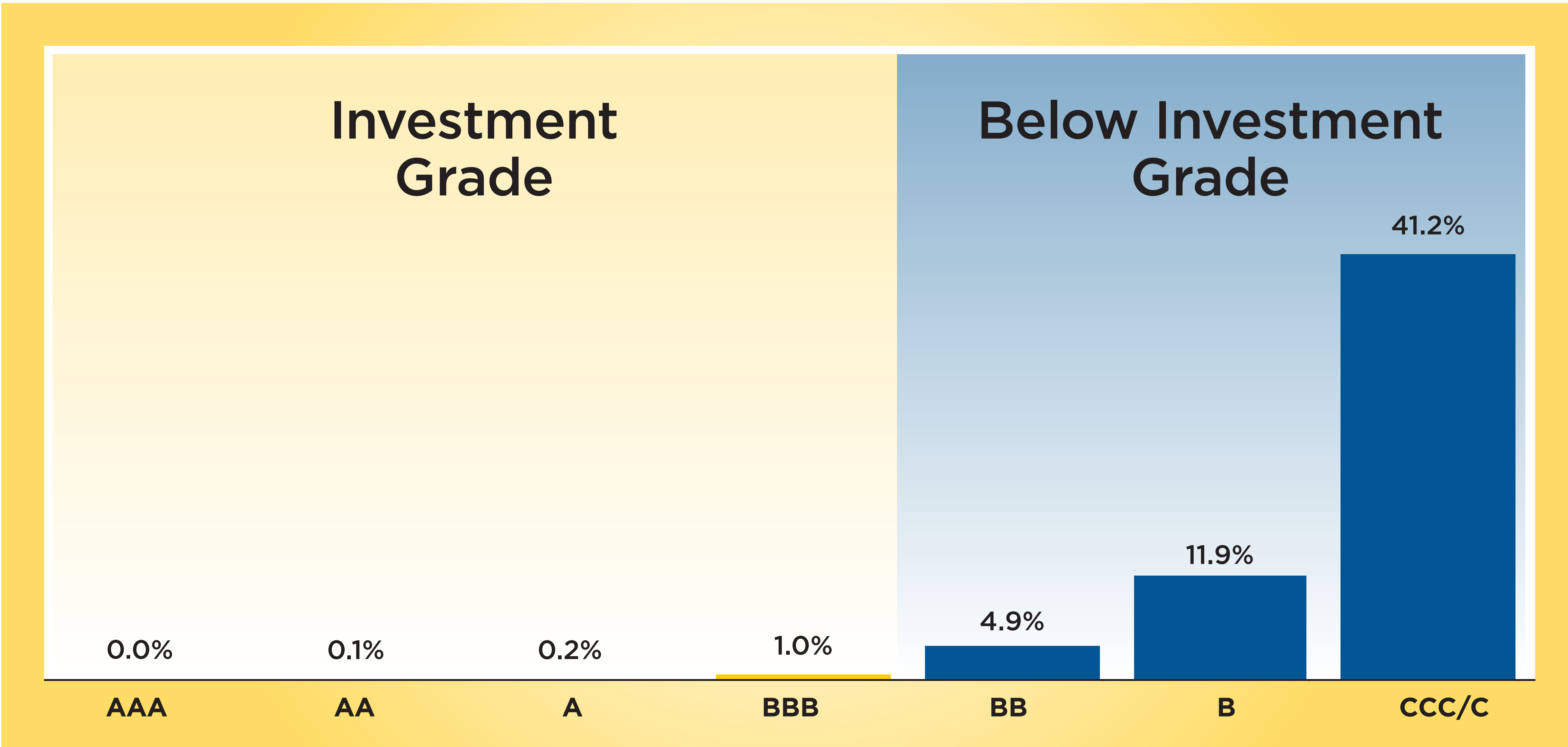
# Average Cumulative Municipal Bond Default Rates 1986–2019




Source: Standard & Poor's. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss. Cumulative average default rates are calculated by taking the weighted average of annual default rates in each rating category and accumulating the results across all the years covered by the study. In this way, they take into account any change in an issuer's credit rating over time.

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# Individual Bond Risks

- May be sold at the current market price, which may be more than, less than or the same as your original investment
- Lower-rated bonds are subject to greater fluctuations in value and risk of loss of principal
- Bonds are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the bonds are sold prior to maturity
- Bonds will pay their par value back if held until maturity, unless they default

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# Individual Bond Risks (cont'd)

- Bond payments do not increase or decrease with inflation
- Rising inflation results in a loss of buying or purchasing power of bond principal and interest
- No immediate diversification
- Many individual bonds are callable, and any bond called prior to maturity may result in reinvestment risk for the bond owner
- Tax-free bonds may be subject to state and local taxes, as well as the alternative minimum tax

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# UIT Benefits

- Immediate diversification
- Fixed interest rate
- Holds a variety of bonds with fixed maturities
- Bonds in the trust are professionally selected and monitored
- Minimum investment is lower than that with individual bonds – $1,000
- Bondholders will receive principal back when bonds mature or are called

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# UIT Risks

- UITs may be sold at the current market price, which may be more than, less than or the same as your original investment
- UITs that own lower-rated bonds are subject to greater fluctuations in value and risk of loss of principal
- UITs are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if they are sold prior to maturity
- The income from the bonds inside tax-exempt municipal unit investment trusts is expected to be generally free from federal taxation. However, activity inside the trust portfolio, including liquidations from other unitholders, may cause early returns of principal to be distributed to the investor. Some or all of the income of the trust, and any principal distributions, may be reclassified as taxable income or taxable capital gains distributions. This reclassification will be disclosed on the investor's end-of-year tax documents

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# UIT Risks (cont'd)

- Distributions from this trust also may be subject to state and local taxes
- UIT interest payments do not increase with inflation. As prices rise, payments and principal remain constant. This results in a loss of buying or purchasing power.
- As bonds in the trust are called or mature, principal will be returned. It cannot be reinvested into the UIT

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# Mutual Fund Benefits

- Immediate diversification
- Bonds in the fund are selected, monitored and professionally managed
- Smaller initial investment than with a UIT
- May be able to move shares without additional commission

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# ETF Benefits

- Can provide broad exposure to asset classes for additional diversification
- Low expenses due to passive management style
- Trade on an exchange, so price changes throughout the day

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# Mutual Fund Risks

- May be sold at the current market price, which may be more than, less than or the same as your original investment. Lower-rated bonds are subject to greater fluctuations in value and risk of loss of principal
- Bond funds are subject to interest rate risk such that when interest rates rise, the price or net asset value (NAV) of the bond fund can decrease, and the investor can lose principal value
- Typically, the rate of return will fluctuate along with interest rates
- No fixed maturity;  principal may not be returned
- Dividends may be increased, decreased or eliminated at any point without notice

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# ETF Risks

- May be sold at the current market price, which may be more than, less than or the same as your original investment. Lower-rated bonds are subject to greater fluctuations in value and risk of loss of principal
- Bond ETFs are subject to interest rate risk such that when interest rates rise, the price or net asset value (NAV) of the bond ETF can decrease, and the investor can lose principal value
- Typically, the rate of return will fluctuate along with interest rates
- No fixed maturity, principal may not be returned
- Dividends may be increased, decreased or eliminated at any point without notice
- High-yield bond ETFs tend to have less liquidity, and these indexes are more difficult to track
- Leveraged and Inverse ETFs are not suitable long-term investments

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# IRAs

## Traditional IRA

- Contributions may be tax-deductible
- Grow tax-deferred
- May be in a lower tax bracket when you take a distribution

## Roth IRA

- Assets distributed tax-free as long as certain requirements are met
- Be aware of income limitations

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# Employer-sponsored Plans

## 401(k) and 403(b)

- Pretax contributions, lower taxable income
- Grow tax deferred
- May be in a lower tax bracket when you take a distribution

## Roth 401(k) and 403(b)

- Contributions are after-tax
- Distribution is tax-free as long as certain require-ments are met
- No income limitation

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# Life Insurance Benefits

Death benefit distributed
free of federal income tax

Permanent life insurance
cash value grows tax deferred

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# Tax-free Investment Features

| | Individual Bonds | UITs | Mutual Funds | ETFs |
|---|---|---|---|---|
| **Interest rate** | Fixed interest rate | Fixed interest rate | Fluctuating interest rate | Fluctuating interest rate |
| **Maturity** | Fixed maturity | Fixed average maturity | No specific maturity date | No specific maturity date |
| **Professional management** | Not managed | Monitored for quality – not managed | Professionally managed | Not managed, designed to track performance of an index |
| **Interest payments** | Semiannual payments | Relatively consistent monthly payments | Variable payments, option to reinvest | Variable payments, option to reinvest |
| **Diversification** | Own one bond | Own part of a portfolio of 15 to 30 bonds | Own part of a portfolio of 30 to more than 100 bonds | Own part of a portfolio of 30 to more than 100 bonds |
| **Liquidity** | Can be sold on any day at current market price | Can be sold on any day at current market price | Can be sold on any day at current market price | Can be sold on any day at current market price |

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# Tax-free Investment Risk

| | Individual Bonds | UITs | Mutual Funds | ETFs |
|---|---|---|---|---|
| Market fluctuation | X | X | X | X |
| Interest rate risk | X | X | X | X |
| Reinvestment risk | X | X | X | X |
| Inflation risk | X | X | X | X |
| Default risk | X | X | X | X |
| Bond value decline | X | X | X | X |

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# Why Individual Bonds?

Designed to help preserve wealth

Produce predictable and reliable income for retirement

Federal (and sometimes state and local) income tax-free

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# Why UITs?

Designed to generate an income stream

Built-in diversification

Professionally selected and monitored

Produce relatively consistent income for retirement

Federal (and sometimes state and local) income tax-exempt

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# Why Mutual Funds?

Built-in diversification

Professionally managed

Federal (and sometimes state and local) income tax-exempt

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# Why ETFs?

Can provide additional diversification

Track the performance of an index

Federal (and sometimes state
and local) income tax-exempt

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# Why Roth and Traditional IRA and 401(k) and 403(b)?

**Traditional IRA**
contributions may be tax-deductible; they offer tax-deferred growth potential

**Roth IRA**
tax-free withdrawals if certain requirements are met

**401(k) and 403(b)**
pretax contributions that lower taxable income; they offer tax-deferred growth potential

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# Why Life Insurance?

Protect loved ones

Permanent life accrues
cash value tax-deferred

Death benefits are distributed free
of federal income tax to beneficiaries

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# Questions & Answers

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# Thank You

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# Important Information

Mutual funds and unit investment trusts (UITs) are offered and sold by prospectus. You should consider the investment objectives, risks, and charges and expenses carefully before investing. Your Edward Jones financial advisor can provide a prospectus, which should be read carefully before investing.

Before investing in individual municipal bonds, municipal bond UITs or mutual funds, you should understand the risks involved. The value of bonds fluctuates, and you may lose some or all of your principal. Bond investments are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value. Lower-rated bonds are subject to greater fluctuations in value and risk of loss of income and principal. Any bonds called prior to maturity may result in reinvestment risk for the bond owner. Fixed-rate bond payments do not increase with inflation. As prices rise, bond payments and principal remain constant, which can result in a loss of buying power. If the bond defaults, you will no longer receive interest payments and may lose your original investment. Tax-free bonds are free from federal income tax but may be subject to state and local taxes, and the alternative minimum tax.

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