



Personalized Tax Management (PTM) is a service offered by UBS AM on many of their ACCESS strategies.(UBS)

# Tax management 101: Year-round management

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**Sebastian Mainegra, Investment Specialist, UBS Asset Management, spoke with UBS On-Air host Dan Cassidy about the importance of year-round tax management and how the Personalized Tax Management solution from UBS Asset Management (UBS AM) seeks to manage the impact of capital gains taxes.**

[Click here](#) to listen to the podcast. Highlights include:

## Why is tax management important and how does it work?

Taxes on net realized capital gains can be a drag on investment returns. For that reason, taxable clients can benefit from various tax management techniques that seek to reduce the impact of taxes on investment returns. The two key techniques discussed include active capital gain deferral and active tax-loss harvesting.

One of the benefits of a separately managed account (SMA) is that clients own the cost basis of each security in the account. In taxable accounts, this means clients can therefore submit a tax-loss harvest request at any point in time during the year. The idea is that realized capital losses in a taxable account can be used to offset realized capital gains in that account or even capital gains realized elsewhere. Even if realized losses are not used in the current tax year, they can be carried over to future tax years. Therefore, tax-loss harvesting can be a helpful tool for taxable clients. Given the current market environment, there are many opportunities for tax-loss harvesting, but those opportunities can fade quickly and sometimes they're gone by the end of the year. Therefore, it is important to take a year-round approach to tax loss harvesting.

In addition to tax-loss harvesting, active gain deferral is another important tax management technique where unrealized capital gains are deferred in a risk managed way to avoid unnecessary capital gains taxes. Portfolio turnover can generate taxes for our taxable clients, particularly when invested in an active strategy. Therefore, it is important to be thoughtful about the realization of capital gains in taxable accounts.

There are a lot of moving parts when it comes to tax management. Fortunately, UBS AM offers a service called Personalize Tax Management (PTM) on many of their investment strategies. PTM seeks to actively defer capital gains and harvest capital losses throughout the entire year, in a risk managed way, for taxable clients.

### **What is UBS Asset Management's Personalize Tax Management (PTM) service?**

Personalized Tax Management (PTM) is a service offered by UBS AM. PTM was launched in 2010 with the objective of seeking to offset the negative impacts of capital gains taxes for clients by deferring short- and long-term capital gains and harvesting capital losses in a risk-managed way throughout the entire year. UBS AM has over \$15 billion (as of 3/31/2023) in tax-managed assets across a wide range of solutions ranging from active equity and multi-asset portfolios to indexed equity portfolios. Ultimately, the service is personalized because it looks at every client account individually for opportunities to defer capital gains and harvest capital losses. This is done proactively throughout the entire year and at the tax lot level. In addition to looking at each account individually from a tax and risk perspective, PTM also takes into account client specific tax rates and any external gains and losses they have. This way, if a client has externally reported realized gains PTM can attempt to offset some of those gains too. The key to the entire process is that it is risk aware, meaning its primary goal is to deliver pre-tax returns that are in-line with the returns of the selected strategy but with lower taxes.

Although PTM is designed to make tax-aware trades, potential benefits will vary based upon individual client circumstances. Neither UBS Asset Management nor UBS Financial Services Inc. provides tax advice on client accounts. Consult your tax advisor.

### **Our tax management approach**

- Our PTM team seeks to implement tax management by deferring capital gains and harvesting capital losses when we think it may be beneficial to your portfolio.
- In doing this, we weigh how much estimated 'tracking error' (see below) a tax management trade would generate (i.e., the risk of pre-tax performance not following the model strategy as closely) versus how much of a tax benefit we think a tax management trade would provide. We are able to apply this framework to every investment decision we make in a PTM account at the tax-lot level by using our risk modeling and optimization tools.

### **What is 'personalized' about PTM?**

PTM is customized for every client portfolio individually, at that client's tax lot level and taking into account client-specific tax rates as well as external capital gain and loss information that the client provides to the Financial Advisor.

### **Key Risks**

Risks associated with PTM include, but are not limited to:

- UBS Asset Management will rely solely on the information provided by you and your Financial Advisor. If that information is inaccurate or incomplete, PTM may be ineffective or less effective, and your taxes may be adversely affected.
- PTM can adversely affect portfolio performance when delaying the sale of some securities in an effort to reduce capital gains taxes, if during this time, the security's price declines, or when accelerating a sale to harvest capital losses if the security's price appreciates after being sold.
- Withdrawals from a PTM account can have adverse tax consequences, such as the realization (and possible taxation) of significant capital gains. If you discontinue PTM or change to a different investment strategy, you could realize significant capital gains subject to tax.
- The potential benefits of PTM could be reduced due to changes in the federal tax rules or rates, or your own financial/tax circumstances.

### *Disclosures*

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