2018 Tax Review Checklist

The beginning of the year is a good time to check your investments for opportunities to increase tax efficiency. 2018 offers new opportunities—and challenges—linked to recent tax law changes.

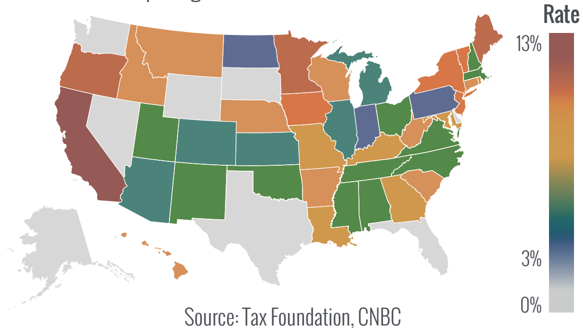
Step 1: Minimize Unnecessary Taxes

Ordinary income tax rates have edged lower for many, but state tax deductions are now capped. Finding ways to minimize state taxes has become an even more important priority for some investors.

- State, local and property taxes can still be deducted, but generally only up to a new combined limit of $10,000 ($5000 for married individuals filing separately).
- Investors in high tax brackets living in high-tax states may want to consider a municipal bond strategy, which can lower their federal and state taxes.[1]
- Consider the pros and cons of professionally managed muni funds vs. buying individual bonds.
- Using tax-adjusted yields is one factor to consider in accurately comparing muni funds to other bond funds.

On the Margins

Top marginal individual income tax rates.



Source: Tax Foundation, CNBC

Step 2: Manage Taxable Accounts

Tax laws have changed, but not enough to alter the basic rules of efficiency for taxable accounts for many investors.

- Short-term capital gains are still taxed at almost double the rate of long-term capital gains, potentially making them worth avoiding from a tax standpoint.
- Long-term capital gains continue to be taxed at 0%, 15% or 20%, depending on a filer's income. Therefore, holding investments for longer than one year to have the potential to lower the tax rate applicable to any gain on such investments may continue to make sense.
- Investors could consider holding funds with higher short-term capital gain exposure in tax-advantaged accounts like IRAs.
- You may want to consider tax-managed mutual funds for taxable accounts.
- Planning to buy mutual fund shares? If you avoid buying ahead of a distribution you may be able to steer clear of unnecessary taxes.

Step 3: Defer Taxes Through Tax-Advantaged Accounts

Tax-advantaged accounts remain a potentially faster way to grow your savings.

- In selecting savings vehicles, you may want to consider the advantages of tax-advantaged accounts, such as IRAs, 401(k)s, HSAs and 529 college savings plans, which all benefit from tax-deferred compounded growth.
- If your employer offers matching contributions, consider taking maximum advantage as their match is essentially free money.
- Consult your financial advisor about whether a traditional IRA or Roth IRA is better for you, before making an investment. Having both types of accounts may provide added flexibility in retirement.
- Start adding to 529 college savings plans for your children. Earnings grow free from federal (and sometimes state) taxes, and withdrawals are generally not subject to U.S. federal income tax for qualified higher education expenses.
- If you are considering using 529 assets to pay for elementary or secondary school tuition expenses (a new rule in 2018), check first to see whether your withdrawal will be subject to any state tax consequences.
- Consider making a tax-deductible contribution to an HSA account. If unspent, your HSA will grow tax free, potentially providing a tax-efficient way to fund health expenses in retirement.

[1] Investment income may be subject to certain state and local taxes, and depending on an investor's tax status, the federal alternative minimum tax. Capital gains are not exempt from federal income tax.

Step 4: New Exemption Limit for 2018 Estate Planning

In 2018, the estate and gift tax exemption will nearly double to approximately $11 million for individuals and about $22 million for couples. These higher levels are set to revert back in 2026, however.

- Wealthy investors who expect to live past 2026 may want to consider gifting assets before 2026 to ensure the tax-free transfer of assets to heirs. Talk to your tax attorney or estate advisor about trust and gifting options.
- Investors with young children may want to:
  - Appoint potential guardians
  - Consider establishing a trust to protect children from the risk of sudden wealth.
- Check that beneficiaries listed on insurance policies and retirement accounts are current.
- Update your will as needed.
- Consider a living trust, which can distribute property, minimize estate taxes and help heirs avoid probate court.
- Create a financial power of attorney to authorize someone you trust to make financial decisions on your behalf, either now or in the future.
- Draft and sign an advance healthcare directive (living will) and health care proxy to control your end-of-care choices.
- Communicate your estate wishes to your executor and family to prevent misunderstandings down the road.

Contact your financial advisor, tax attorney and/or estate planner to learn more about maximizing the tax efficiency of your investment portfolio in a way that aligns with your future goals.

For more information, visit amgfunds.com/readiness.

About AMG Funds

The largest network of institutional quality boutique investment solutions through a single point of access

Unrivaled access to insights of over 30 independent and autonomous investment managers

More than 100 actively managed products covering the risk spectrum for investors searching beyond the index

AMG Funds

amgfunds.com

linkedin.com/company/amg-funds

The tax information contained herein is provided for informational purposes only. AMG Funds does not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific financial or tax situation.

Investing involves risk, including possible loss of principal. Diversification does not guarantee a profit or protect against a loss in declining markets.

Investments in debt securities are subject to risks such as default risk and fluctuations in the perception of the debtor's ability to pay its creditors. Changing interest rates may adversely affect the value of an investment.

An increase in interest rates typically causes the value of bonds and other fixed income securities to fall.

Factors unique to the municipal bond market may negatively affect the value in municipal bonds.

Although tax-managed mutual funds are managed to minimize taxable distributions, they may not be able to avoid taxable distributions.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause AMG Funds LLC (or any affiliate) (collectively, the "Manufacturer") to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any retirement plan or IRA investor, as the recipients are fully aware that the Manufacturer (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to the Manufacturer's internal business objectives, and which has been disclosed to the recipient. Nothing set forth herein or any information conveyed (in writing or orally) in connection with these materials is intended to constitute a recommendation that any person take or refrain from taking any course of action within the meaning of U.S. Department of Labor Regulation §2510.3-21(b)(1), including without limitation buying, selling or continuing to hold any security. No information contained herein should be regarded as a suggestion to engage in or refrain from any investment-related course of action as none of AMG Funds LLC nor any of its affiliates is undertaking to provide investment advice, act as an adviser to any plan or entity subject to the Employee Retirement Income Security Act of 1974, as amended, individual retirement account or individual retirement annuity, or give advice in a fiduciary capacity with respect to the materials presented herein. You are advised to contact your own financial advisor or other fiduciary unrelated to AMG Funds LLC about whether any given course of action may be appropriate for your circumstances. The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

AMG Distributors, Inc., a member of FINRA/SIPC.

AMG Funds LLC is a subsidiary and U.S. distribution arm of Affiliated Managers Group, Inc. (NYSE: AMG).