J.P.Morgan

LENDING SOLUTIONS

Liquidity at tax time or anytime

Changes made to the tax code back in 2017 will continue to impact regulations for the next several years. While these changes include an increase in the standard deduction, they also mandate limits to itemized deductions, reduce the number of tax brackets and revise many other aspects of the tax code, including mortgage interest and property tax deductions.

For some taxpayers, these changes could mean an increase in taxes owed, while others are simply unsure what their obligations will be. That's why many of our clients are meeting with their Advisors and CPAs to discuss their strategies, understand their options and ensure they have access to liquidity to meet their tax obligations.

There are typically three options to consider in order to source the funds you need:

- **Using available cash** is always an option, but regularly holding cash balances can have high opportunity costs
- **Selling assets** can trigger unfavorable tax consequences or disruptions to your investment portfolio
- **Having a line of credit** that uses your portfolio as collateral may be a smarter short- and long-term solution

LIQUIDITY WHEN YOU NEED IT

With a securities-based line of credit, you have the access to the funds you need, backed by the strength of your portfolio.

It allows you to consider an alternate funding option to make tax payments, meet capital calls or fulfill other obligations. You can keep your investments working for you and pursue your long-term goals without disrupting your portfolio allocation or incurring potential capital gains taxes.

FLEXIBLE BENEFITS

Your line of credit can make a difference anytime you need to access liquidity—not just to meet financial obligations such as taxes. It's also a ready source of funds in a variety of situations. For example, you may want to start or expand a business, move quickly to acquire an ideal property, or fund your child's college education.

Your line of credit can be structured tax-efficiently to help you grow and preserve wealth more effectively. There are no fees to set up a line of credit, and you only incur interest charges on the funds you use.

MAKE A MOVE YOU'RE CONFIDENT IN

And to do that, it's important you consider the risks of borrowing before you move forward. Your Advisor can walk you through these risks in more detail and what they mean for your individual situation.

- **Interest rate fluctuation.** The interest you pay on your line of credit changes as the U.S. dollar London Interbank Offered Rate

USING A LINE OF CREDIT TO REMAIN INVESTED

A HYPOTHETICAL EXAMPLE

A client recently sold a business for $7.5 million and immediately put the proceeds to work in a diversified portfolio. However, as a result of the sale, she was faced with a large tax bill that she needed to fulfill this year.

Rather than liquidate a portion of her portfolio, she opted to establish a line of credit using the investment portfolio as collateral. This allowed her to use the credit line proceeds to meet her tax obligation while keeping her investment portfolio working toward her long-term goals.

	OPTION A Not using a line of credit	OPTION B Using a line of credit
BALANCED PORTFOLIO	$7,500,000	$7,500,000
LIQUIDATION AMOUNT	$2,000,000	–
REMAINING INVESTMENT	$5,500,000	$7,500,000
TOTAL EQUITY RETURN	**$330,000**	**$450,000**
TOTAL LOAN COST	–	($64,000)
NET EQUITY RETURN	**$330,000**	**$386,000**
VALUE ADDED BY USING A LINE OF CREDIT		**$56,000**

The hypothetical total return scenario shown above is based on a Balanced Portfolio with Hedge Funds, and the return is calculated algebraically based on the hypothetical total portfolio return, total investment (including loan amount) and loan cost. The total portfolio return is 6.0%, and the total loan cost is 3.20% (1-month LIBOR as of February 7, 2020 + 150 bps).

Assumptions: The client has $7.5 million invested in a Balanced Portfolio and required $2 million to meet tax obligation. In Option A, the client takes $2 million from her investment portfolio to cover the upcoming tax obligation. In Option B, the client established a $2 million line of credit, collateralized by the investment assets in her portfolio, to fulfill the upcoming tax obligation.

Please read important disclosures on reverse.

(LIBOR) moves. These changes can lead to higher or lower borrowing costs for you.

- **Margin calls and liquidation.** If your investments drop below a certain level and a collateral shortfall occurs, then you will be in a margin call. In order to avoid the forced sale of your investments, you may need to sell some of your investments and use the proceeds to pay down your line of credit and/or provide additional collateral to cover the shortfall.

LEARN MORE

Your J.P. Morgan team can help you review your borrowing strategies, ensuring that your liabilities are aligned with your financial goals, and help you evaluate your liquidity needs. Together, you can determine the right credit strategy for your short-, medium- and long-term needs in the context of your overall wealth strategy.

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