Income Tax Planning

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In this kit:

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Income Tax Planning

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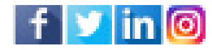
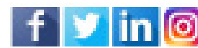
 Income Tax Planning 

Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following 3 pages.

Did you get a tax refund this year? Use it to do something amazing for your loved ones - protect them with life insurance!

Tax regulations are ever-changing, but we keep track so you don't have to. Contact me today to learn how taxes might impact your estate and ability to cover future healthcare costs in retirement.

Preserve your legacy and protect your loved ones with life insurance! Think of what a guaranteed death benefit could mean to their future. Contact me today for a free life insurance quote to get started.

Thinking ahead to retirement? By having the necessary planning conversations now and putting a strategy into place, you may be able to reduce or eliminate your entire tax bill. I can help!

Over the past 2 decades, life insurance products have come to include benefits payable during your life, as well as after you pass away. But do those living benefits come with tax implications? Contact me today to find out more.

Are you paying more in taxes than you need to? Your 1040 form can be a tool to help you meet your financial needs – and I can help. Contact me today.

By looking at your completed 1040 form, I can find ways to help you plan for retirement, a child's college expenses, and more. Want a free consulation? Contact me today!

Thinking of ways to spend your tax refund? Think about using it to create a lasting legacy for your family with life insurance. It's a way to tell them you love them from beyond the grave.

Had a rough tax year? You're not alone. If paying tax now feels painful, imagine paying it when you're retired and trying to live on a fixed income. I can help you make a plan so that you don't outlive your income - and keep your tax obligations as low as possible. Call me to find out how!

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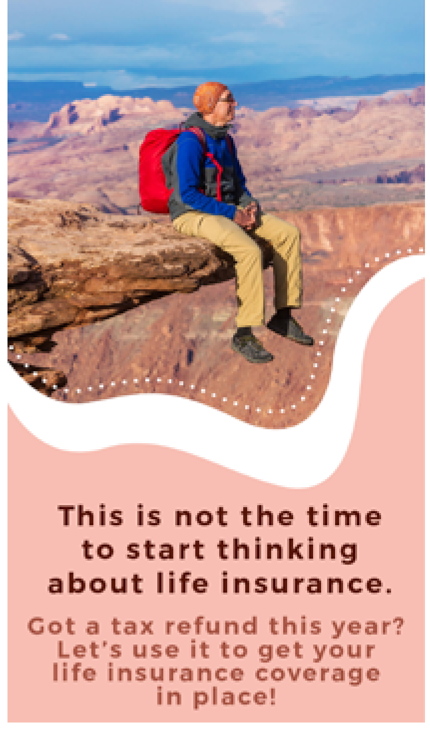

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Advanced **Markets**

Uncovering life & long-term care insurance needs through Form 1040

Tax returns can offer insight into clients' financial planning needs, including life insurance and long-term care

In general, tax returns show gross income, adjusted gross income, and taxable income. However, a detailed review of a tax return can lead to important and powerful conversations about:

- Income replacement
- Retirement savings
- Estate and legacy planning
- Intergenerational wealth
- Business planning needs

Additionally, comparing last year's tax return to this year's return can shed light on planning opportunities due to life changes.

LIFE-5442 3/23

How to use this guide

The 2022 1040 form includes six different schedules to provide additional information.

This guide — which focuses specifically on the 1040 basics, Schedule 1 and Schedule A — is designed to not only highlight specific planning opportunities, but also provide tips on how to begin addressing your clients' needs. Here are some tips for success.

Read through this guide

This guide touches on multiple planning opportunities and is designed to give you an introduction to many approaches and concepts that can meet those needs.

Review IRS Form 1040

Familiarize yourself with Form 1040 and its corresponding schedules. Key questions and tips are included throughout this guide to help you review and uncover opportunities within a client's income tax return. Pay attention to what is missing from the 1040 as much as what is disclosed. For example, if Lines 16 and 20 on Schedule 1 showing retirement contributions are blank, this can open a door to discuss a client's preparedness for retirement and possible use of life insurance as a supplemental retirement vehicle.

Set up a plan

Set up a plan to meet with the client, ask the right questions, prioritize goals, and, when applicable, use our online tools or Advanced Markets group to help.

Familiarize yourself with our online tools and resources

John Hancock has many mobile-friendly tools and resources that can further the life insurance conversation. For more information, please go to www.jhadvancedmarkets.com

Key planning opportunities

Form 1040 can uncover several different life and long-term care insurance needs. These opportunities fall into seven distinct categories, outlined below.

Opportunity	Description	Product considerations
Needs analysis	**Performing a needs analysis with the client helps ensure that you understand the family's structure and needs.** While a needs analysis will generally look at salary replacement, covering debts, and existing coverage, it is also helpful to uncover some of the client's hidden needs. For example, there may be additional planning considerations if the client has a child with special needs, an elderly parent, or is in a second marriage.	**With needs analysis planning, the life insurance options to discuss will depend on the client's discretionary income, risk tolerance, and duration of need.** Term life insurance is a cost-efficient product that can help supplement and cover basic protection needs for a set period of time, while permanent insurance can provide cash value accumulation potential and permanent death benefit protection. Many financial professionals often recommend a combination of permanent and term to meet their clients' needs.
Retirement planning	**For many clients retirement planning is a top concern.** A great way to start the conversation is to conduct a retirement check-up to help make sure the client's savings are on track for retirement. Even if a client is retired or approaching retirement, they may still have additional planning needs, including protecting against long-term care costs, covering a long retirement, and covering risks they might face in retirement.	**For clients who need both death benefit protection and supplemental retirement income, a permanent accumulation life insurance policy can help.** Permanent insurance can provide a source of tax-advantaged supplemental retirement income potential. And when other product features are added, such as a long-term care rider, it can help protect clients from other risks they may face in retirement.
College planning	**For clients with young children, planning for college is generally a top priority.** While there are many options available, life insurance can help those clients who are looking for options that offer both flexibility and protection.	**For clients with young children who need both death benefit protection and supplemental income to pay for college expenses for their children, a permanent life insurance policy can help.** Please note that the cash value needs time to accumulate, thus this strategy is meant for clients with younger children.

Key planning opportunities, *continued*

Opportunity	Description	Product considerations
Wealth transfer	**Clients at or near retirement age are often thinking about what type of legacy they'd like to leave and may have assets that they no longer need for retirement income.** These assets could be leveraged to purchase a life insurance policy that provides tax-free death benefit protection and other tax advantages.	**Permanent life insurance policies are well-suited for legacy and wealth-transfer planning.** The policy's death benefit can provide liquidity for final expenses, helping ensure equality among heirs and enhancing the total amount left to loved ones. While single life or survivorship policies can be used for legacy planning, a survivorship policy can offer a more cost-effective death benefit.
Business planning	**Business planning clients are often balancing many needs** including, but not limited to, succession planning, retirement planning, retaining and rewarding key employees, and protecting the business from the loss of a key employee.	**A combination of term and permanent insurance can be used for business owners.** Term insurance can provide a cost-efficient solution for shorter-term personal and business needs, while permanent products offer flexibility for many purposes.
Charitable giving	**Clients who are charitably inclined may be interested in learning about ways to provide additional benefits to their favorite charities through insurance.** For instance, the policy could provide additional financial resources to a favored charity at the donor's death or replace wealth for the family otherwise lost due to large charitable gifts.	**Permanent life insurance policies — either individual or survivorship — are often used** to help clients address their charitable-giving goals.

Key planning opportunities, *continued*

Opportunity	Description	Product considerations
Long-term care	**Long-term care planning involves having a discussion about the cost of care as well as the client's wishes.** How do they want care to be provided? Who will provide it? How will they pay for it?	**A permanent life insurance policy with a long-term care rider** is one option that your client should explore. Should they need long-term care, they can accelerate the death benefit, but if they do not need the coverage the death benefit could provide a lasting legacy to their children and grandchildren.

Consider how John Hancock's Vitality solution fits into the conversation. Today, more than ever, individuals are looking for holistic planning that is flexible to meet changing needs throughout their lives. This includes not only financial planning, but planning for health and wellness.

Enhance the life insurance discussion by showing how a life insurance policy with John Hancock Vitality can help meet financial goals while also providing incentives for living a healthier life.

1040 basics

The following pages will breakdown Form 1040 and applicable Schedules and help to identify key planning opportunities.

Filing status (Figure 1)

Filing status is one of the major drivers of planning changes. If someone's filing status has changed, you should carefully review their planning needs. What changed? Consider:

- **Did your client recently get married?** Marriage is a life event that generally creates financial interdependence. Newlyweds frequently discover that they need life insurance to replace a spouse's salary or cover debt they might share such as a mortgage or car loan.
- **Is this a second marriage?** Blended families often use insurance as the great equalizer in transferring wealth, helping ensure equitable treatment for the children of each marriage.
- **Did your client recently get divorced?** Some divorce agreements require life insurance to meet alimony obligations.
  - See Schedule 1 for additional insight into whether alimony is being paid or received. Does the divorce decree require life insurance? Has the client purchased this policy? Or does the client currently have a policy that needs to be reviewed?
- **Is your client listed as "Head of Household?"** These individuals will likely have dependents who rely on them. Life insurance can help provide the protection dependents need if the filer is no longer there for them.

Figure 1

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2022 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box.
☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)
If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial	Last name	**Your social security number**
If joint return, spouse's first name and middle initial	Last name	**Spouse's social security number**

Filing status tells us only so much:

Underneath a particular status there is a story to uncover — for example, perhaps your client files as "single," but are in a committed nonmarital relationship or are widowed. What are the challenges they face? This is a great place to talk about their need to protect the loved ones in their lives.

Home address may uncover new opportunities:

- Does the client have property in multiple states?
- Are they aware of each state's estate/ inheritance laws?
- If they spend time abroad, do they have foreign assets? US citizens and residents are subject to income and estate taxes on their worldwide assets.

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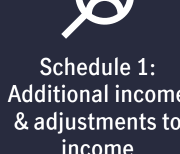
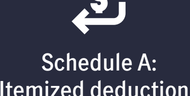

Schedule 1: Additional income & adjustments to income

Schedule A: Itemized deductions

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Dependents (Figure 2)

The addition of a dependent can drastically change how someone thinks about their financial preparedness and planning. Frequently, financial professionals fall into the trap of thinking there has been no change in dependents if no child was born in a given year. This may not be the case. Dependents can change for any number of reasons, any one of which can cause a client to rethink their plan.

- **Birth or adoption of a child are the most common scenarios,** but consider whether there has been a marriage to a spouse with dependents, or an elderly parent or other loved one who can no longer care for themselves. Having children generally requires discussions about saving for college and income replacement. But a marriage with existing dependents, no matter how late in life, may also necessitate a review of one's estate plan and possible equalization strategies.
- **Additionally, a client who originally postponed or rejected the idea of long-term care coverage** may wish to reconsider that decision if and when they help care for an elderly loved one. The emotional strain of caring for a loved one, coupled with the cost of care, causes many clients to reconsider how well they've planned to protect themselves and their own family members.

Ask your client:

- Do you have enough life insurance to protect your loved ones? The younger the dependents are, generally the more insurance is needed.
- Do you want to provide for college? If yes, are you on track for this goal?
- Do you have any dependents that have special needs (e.g., children, as well as elderly parents, extended family members, etc.)? How will you provide for them should something happen to you?

Figure 2

Dependents (see instructions):				(4) ✔ if qualifies for (see instructions):	
If more than four dependents, see instructions and check here ▶ ☐	(1) First name Last name	(2) Social security number	(3) Relationship to you	Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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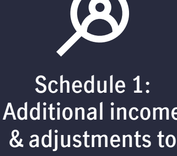
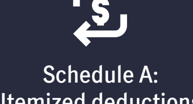

Schedule 1: Additional income & adjustments to income

Schedule A: Itemized deductions

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Line 1: Wages, salaries, tips

Earned income, which can generally be described as W-2 or 1099 income, is lost in the event of a client's unexpected death. Therefore, it is important to consider this "top line" number when determining if, and how much, income replacement coverage is needed. In many families, both spouses provide income that may need to be replaced. Furthermore, today's families may work offsetting schedules, reduced hours, or have one spouse staying at home to take care of children and meet other family needs. If one spouse passes away, not only is any earned income provided by the deceased spouse lost, but the surviving spouse will likely incur expenses associated with taking care of children, house, etc.

Don't forget coverage for a stay-at-home parent:

Stay-at-home spouses are often underinsured or not insured at all. If your client (or client's spouse) is a stay-at-home parent, make sure to inquire about insurance coverage and whether it is sufficient to help cover the needs of the family if something were to happen to the primary caretaker.

Line 2a: Tax-exempt interest

Clients who have invested substantially in tax-advantaged investments, like municipal bonds, are good candidates for a discussion on the benefits of permanent life insurance as an alternative or additional tax-advantaged investment vehicle. The tax-exempt income from the current investments could even be leveraged with life insurance rather than continuing to reinvest in municipal bonds.

> **Ask your client:**
> How long have you had municipal bonds? What are they earning and are you re-investing them? When do you plan on using this money?

Line 2b: Taxable interest

Generally, the assets indicated on this line are low-risk investments, including: certificates of deposit, saving accounts, and bond income. Their low-risk nature usually ensures corresponding low interest-rate yields. One alternative to a low-risk, low-reward strategy is to use these assets to purchase life insurance, which may provide a higher internal rate of return while also providing income-tax free growth potential and needed death benefit protection.

> **Ask your client:**
> Where is this invested and how much is it earning? What is this money for? Are you concerned about taxes?

Lines 3a & 3b: Ordinary and qualified dividends

Dividend income that is being re-invested could serve as a source of income for potential insurance needs. Moreover, asking about the source of these dividends may lead to opportunities for insurance. For example, if the dividends are from a closely-held business, there may be an insurance need for succession planning or key person coverage. Alternatively, if dividend income comes from a concentrated stock position, insurance can help protect and diversify the family's wealth in case of a future downturn in the market.

> **Ask your client:**
> Where is this income coming from? How much are you earning? What is the plan for the dividends?

Lines 4a, 4b, 5a & 5b: IRAs, pensions & annuities

Generally, clients taking IRA distributions or annuity distributions and pensions are retired. Many retired clients face a trifecta of risks: longevity, long-term care costs and sequence of returns. Purchasing a life insurance policy can help provide a source of supplemental retirement income as a "backstop" to outliving other retirement assets and can also provide long-term care protection. Policy values not depleted during life can then pass on to the next generation(s) income-tax free.

> **Ask your client:**
> Are distributions being taken only because they are required as RMDs (i.e., not needed for current living expenses)?

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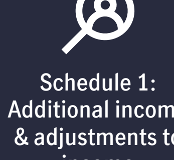
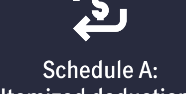

Schedule 1: Additional income & adjustments to income

Schedule A: Itemized deductions

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Lines 6a & 6b: Social Security benefits (Figure 3)

Generally, clients taking Social Security are retired. As mentioned earlier, retired clients face a trifecta of risks: longevity, long-term care costs and sequence of returns. These individuals can use life insurance to supplement retirement income in later years, cover long-term care costs and protect loved ones. Unneeded Social Security payments also can be used to purchase life insurance to provide a legacy for children and grandchildren.

> **Ask your client:**
> When did you start taking Social Security?
> Do you use it for current living expenses?

Line 7: Capital gain or (loss) (Figure 3)

High-income earners with passive income may be subject to an additional 3.8% surcharge tax. Therefore, if your client has a lot of investments that are earmarked for legacy purposes (i.e., they don't plan on using the income to support their lifestyle now and in the future), they may be better served by leveraging these assets to a more tax-efficient legacy asset, such as life insurance.

> **Ask your client:**
> Where is this money invested? Can it be invested in a more tax-efficient manner?

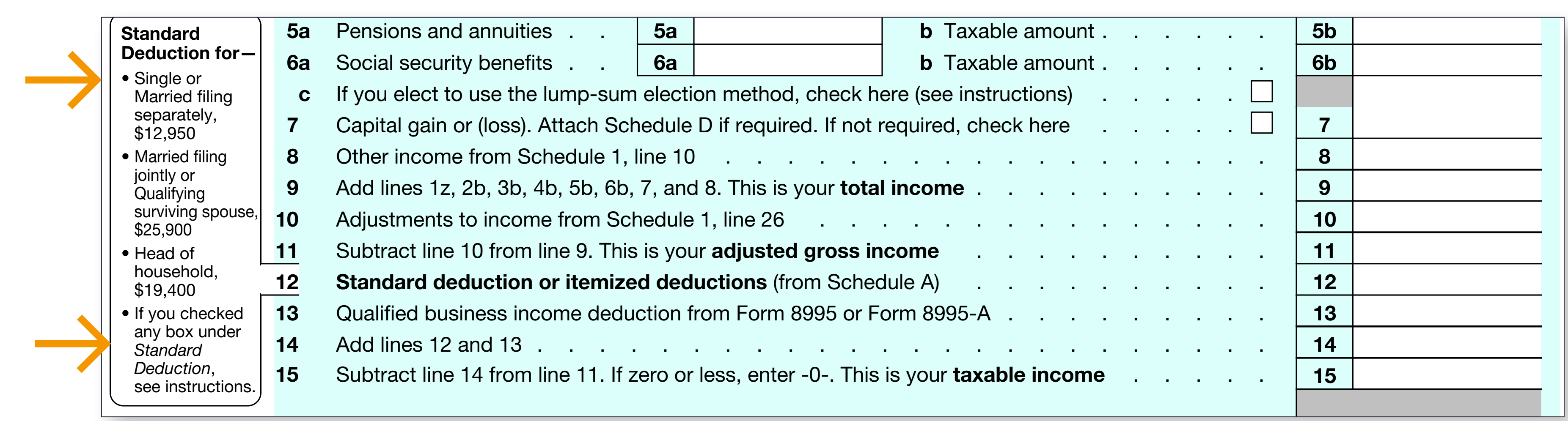
Line 13: Qualified business income deduction (Figure 3)

Under Code Section 199A, owners of pass-through entities may receive a deduction up to 20% of qualified business income (QBI). If your client is reporting a QBI deduction, point out using these savings to help them with their insurance needs. If they have not seen a positive impact, now is the time to talk to them about the importance of tax diversification. See Lines 3 and 5 on Schedule 1 for more information.

Line 24: Total

This number sums up the total amount of taxes a client pays. Focusing on this number can shed light on how much taxes are paid, and not solely on the amount owed or what a refund might look like. Focusing on this number should open up discussions about tax diversification and ultimately lead to a discussion regarding how life insurance can provide tax-free death benefit coverage, as well as providing income-tax free access to cash value.

Figure 3



Standard Deduction for—
- Single or Married filing separately, $12,950
- Married filing jointly or Qualifying surviving spouse, $25,900
- Head of household, $19,400
- If you checked any box under *Standard Deduction*, see instructions.

Line	Description			Line	Amount
5a	Pensions and annuities	5a	b Taxable amount	5b	
6a	Social security benefits	6a	b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐			7	
8	Other income from Schedule 1, line 10			8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**			9	
10	Adjustments to income from Schedule 1, line 26			10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**			11	
12	**Standard deduction or itemized deductions** (from Schedule A)			12	
13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
14	Add lines 12 and 13			14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**			15	

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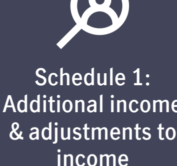
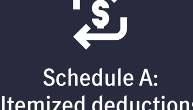
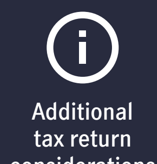

Schedule 1: Additional income & adjustments to income


Schedule A: Itemized deductions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Schedule 1: Additional income & adjustments to income

Line 3: Business income or (loss) (Figure 4)

Clients who own a business may have multiple life insurance needs such as:

- Succession planning and funding buy-sell arrangements.
- Covering personal needs that may include creditor protection, retirement planning, and/or helping to cover long-term care costs.
- Retaining and rewarding valuable employees through a non-qualified deferred compensation arrangement (including executive bonus, supplement executive retirement planning, and salary deferral).
- Protecting against the loss of a key employee.

Business Analyzer:

Use the JH Business Analyzer to help uncover a plan for your business-owner client that fits their specific goals.

Figure 4

Part I	Additional Income		
1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	

Line 5: Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Figure 5)

Clients with rental income can have a number of issues that life insurance may help address:

- Many income-producing properties have mortgages on them.
- Many clients manage rental properties themselves and, if they were to die unexpectedly, a property-management company would need to get involved.
- Rental real estate is a non-liquid asset and may be hard to divide amongst beneficiaries (some may want to keep the property, while others may want to sell).

Figure 5

4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	

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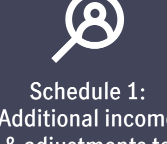
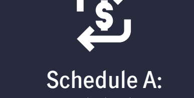
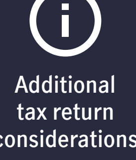

Schedule 1: Additional income & adjustments to income


Schedule A: Itemized deductions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Lines 16 & 20: Self-employed SEP, SIMPLE, and qualified plans; IRA deduction (Figure 6)

These line items often tell us whether clients are saving for retirement. (If they are W-2 employees, the retirement contribution can be seen on their W-2 statement.)

High-earning clients are limited in the amount that can be contributed to qualified plans and are not eligible for a tax credit for these contributions. As a result, they may be unable to save enough to replace their current income at the levels that lower earners can. Therefore, high-earning clients often need additional tax-efficient savings opportunities to accumulate the amount they need for retirement income.

Life insurance is one of the few opportunities, beyond qualified plans, which affords a client the opportunity to save for retirement in a tax-efficient manner. A permanent life insurance policy can offer immediate death benefit protection help to ensure their spouse is protected, while also providing a funding source (for supplemental retirement income potential).

Use our Retirement Needs online calculator to generate a proposal to help determine if a client is on track for retirement.

If you find a client is not likely to reach their retirement-savings goal — and they also need life insurance to protect their loved ones — a permanent policy can help them get back on track for retirement, while protecting their family today.

Figure 6

15	Deductible part of self-employment tax. Attach Schedule SE	15	
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN ▶		
c	Date of original divorce or separation agreement (see instructions) ▶		
20	IRA deduction	20	

Schedule A: Itemized deductions

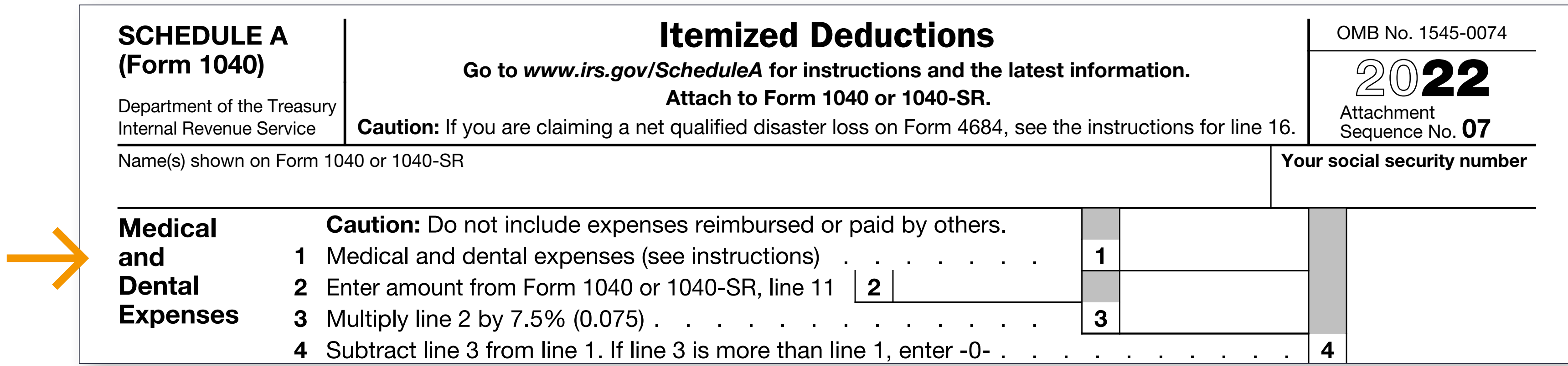
While many taxpayers may not have itemized deductions due to a doubling of the standard deduction (now $12,950/individual; $25,900/joint filers[1]), Schedule A items should still be reviewed with clients to determine potential needs.

Line 1: Medical & dental expenses (Figure 7)

In the "Medical and Dental Expenses" section, an itemized deduction may be claimed for unreimbursed medical expenses to the extent total expenses exceed 7.5% of AGI (in 2022). Many clients will not qualify for medical deductions; with or without the deduction, this line can be a great conversation starter.

> **Ask your client:**
> Who do you have medical coverage through? Do you understand the difference between medical insurance and long-term care insurance? Do you know what is and is not covered?

Figure 7



SCHEDULE A (Form 1040)
Department of the Treasury
Internal Revenue Service

Itemized Deductions
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Attach to Form 1040 or 1040-SR.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074
2022
Attachment Sequence No. 07

Name(s) shown on Form 1040 or 1040-SR | **Your social security number**

Medical and Dental Expenses

Caution: Do not include expenses reimbursed or paid by others.

1	Medical and dental expenses (see instructions)	1	
2	Enter amount from Form 1040 or 1040-SR, line 11	2	
3	Multiply line 2 by 7.5% (0.075)	3	
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	

This part of your client's tax return can be a great segue into the Vitality conversation.

Consider asking your clients:

- Do you see your doctor or dentist for a yearly checkup?
- Do you like to exercise or participate in sports?
- What do you do to try to stay healthy, if anything?
- Are you interested in — or motivated to — lead a healthier lifestyle, which might help reduce medical expenses?

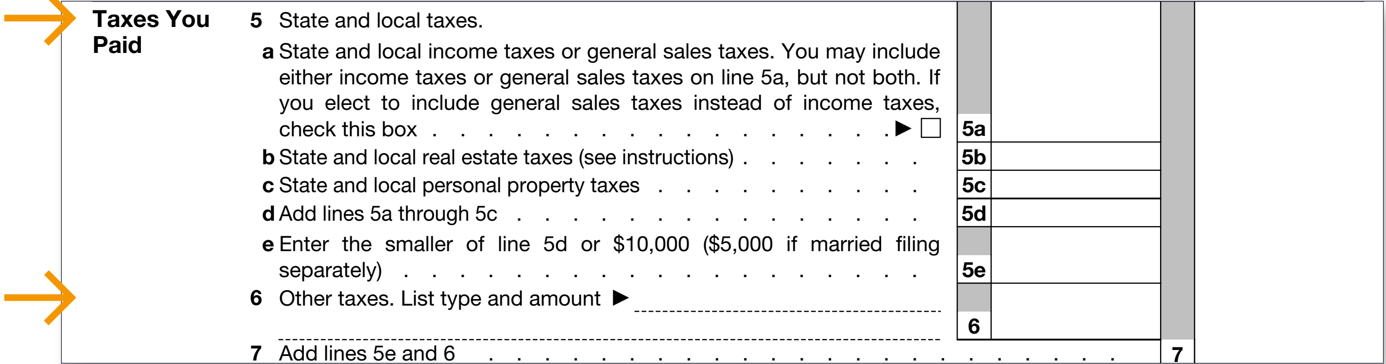
Any clients who answer yes could be a great fit for John Hancock Vitality life insurance, which offers rewards and discounts for the everyday steps people take to engage in a healthy lifestyle — like taking a walk, buying nutritious food and getting an annual checkup.

And for eligible clients who are living with diabetes, John Hancock Aspire combines life insurance with a personalized diabetes-support program that helps them meet their unique health and lifestyle needs, and rewards them for the steps they take to manage their condition and live a longer, healthier life.

Lines 5 & 6: Taxes paid (Figure 8)

State and local taxes are deductible only up to $10,000. For many high-income earners that live in high income/property tax states, the cap on deductions may mean an increase in tax liability. Therefore, having a discussion about owning assets that offer tax-free growth potential might be of interest to these individuals.

Figure 8



Taxes You Paid

5 State and local taxes.

a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box . . . ▶ ☐ 5a

b State and local real estate taxes (see instructions) . . . 5b

c State and local personal property taxes . . . 5c

d Add lines 5a through 5c . . . 5d

e Enter the smaller of line 5d or $10,000 ($5,000 if married filing separately) . . . 5e

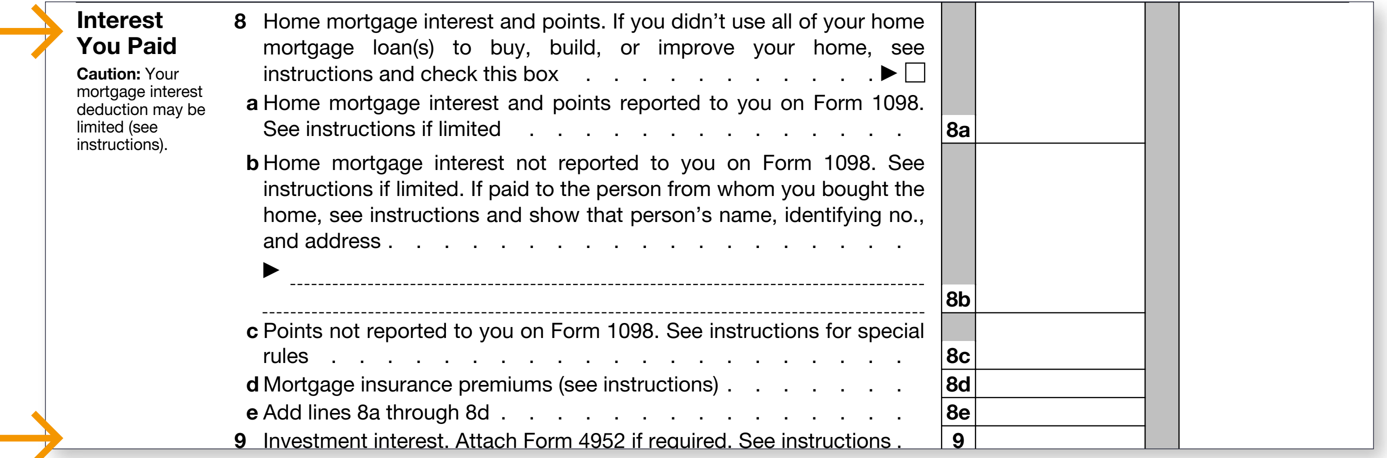
6 Other taxes. List type and amount ▶ 6

7 Add lines 5e and 6 . . . 7

Lines 8 & 9: Interest paid (Figure 9)

Life insurance is typically purchased for income replacement and debt coverage. A mortgage is generally one of a client's largest obligations, and is a great place to start. Even clients who have been in a home a long time may have refinanced and taken equity out, or perhaps they have moved to a different home. Have they accounted for this in their needs analysis for life insurance?

Figure 9



Interest You Paid

Caution: Your mortgage interest deduction may be limited (see instructions).

8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box . . . ▶ ☐

a Home mortgage interest and points reported to you on Form 1098. See instructions if limited . . . 8a

b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address . . . ▶ 8b

c Points not reported to you on Form 1098. See instructions for special rules . . . 8c

d Mortgage insurance premiums (see instructions) . . . 8d

e Add lines 8a through 8d . . . 8e

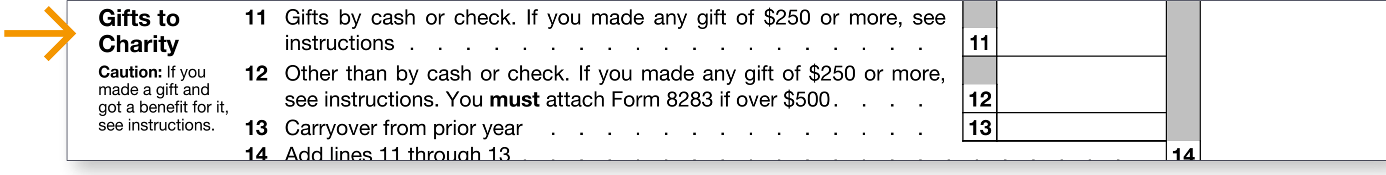
9 Investment interest. Attach Form 4952 if required. See instructions . 9

Lines 11 & 12: Charitable gifts (Figure 10)

Clients who are making charitable gifts may be interested in other planning options that can help them maximize their charitable legacy. One such approach may include purchasing or using existing life insurance to benefit the charities they are currently gifting to. If the client has earmarked other assets to provide a benefit to charity (e.g., naming charity as beneficiary of their IRA/401(k), creating a Charitable Remainder Trust, etc.), life insurance can be used to help replace/ equalize wealth to the family.

> **Ask your client:**
> Which charities are you currently giving to? Have you planned or committed to larger gifts as part of your estate plan? What assets will you use to make these gifts?

Figure 10



Gifts to Charity

Caution: If you made a gift and got a benefit for it, see instructions.

11 Gifts by cash or check. If you made any gift of $250 or more, see instructions . . . 11

12 Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500 . . . 12

13 Carryover from prior year . . . 13

14 Add lines 11 through 13 . . . 14

Additional tax return considerations

This guide has focused on Form 1040, Schedule 1 and Schedule A. But if a client also has the forms below, here are some additional items to consider.

1040-NR for non-resident aliens

- Non-resident aliens are subject to different income and estate tax rules. Generally stated, the US estate exemption amounts are extremely limited for foreign nationals.
- Foreign nationals and their spouses require specialized planning due to the complexities of non-resident alien taxation. Every year, many foreign national families and their decedents are surprised by an estate tax obligation and upset with their financial professionals for not letting them know earlier. Spending a little time to understand how to identify these issues can make you a valued resource for foreign nationals looking for quality financial professionals in the US.

Foreign national market

If you have non-resident alien clients and are interested in learning more about selling John Hancock life insurance in this market, please see our *Selling guide: Global high net worth market* at JHSalesHub.com.

Form 1041 for estates & trusts

Trusts are subject to different income tax rules and a condensed income tax table. Generally, the trustee files the return. However, simply asking: "Do you manage, or have you created, a trust that files a Form 1041?" can lead to more information and additional planning opportunities.

Forms 1120 (C Corp), 1120-S (S Corp), 1065 (partnership) for businesses

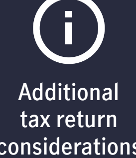
- These companies also have to file Form 8925 with their annual tax returns, reporting the number of insurance policies owned on employees.
- As the requirements of 101(j) are often overlooked, it is important to ask clients about any business-owned life insurance to ensure compliance or address issues for non-compliance.

Requirements of 101(j)

For more information on this requirement, please refer to the *Because you asked: IRC 101(j) requirements for employer-owned insurance.*

C corporations are taxed at a flat corporate rate of 21%.

Talk to owners of C corporations about how they plan to allocate their corporate tax savings. Life insurance can help address many business needs, and for C corporations looking to avoid the accumulated earnings tax, life insurance may serve as a permissible purpose/exception to that rule.



Next steps

Now that you have familiarized yourself with this guide, go through your book of business and start setting up meetings for review.

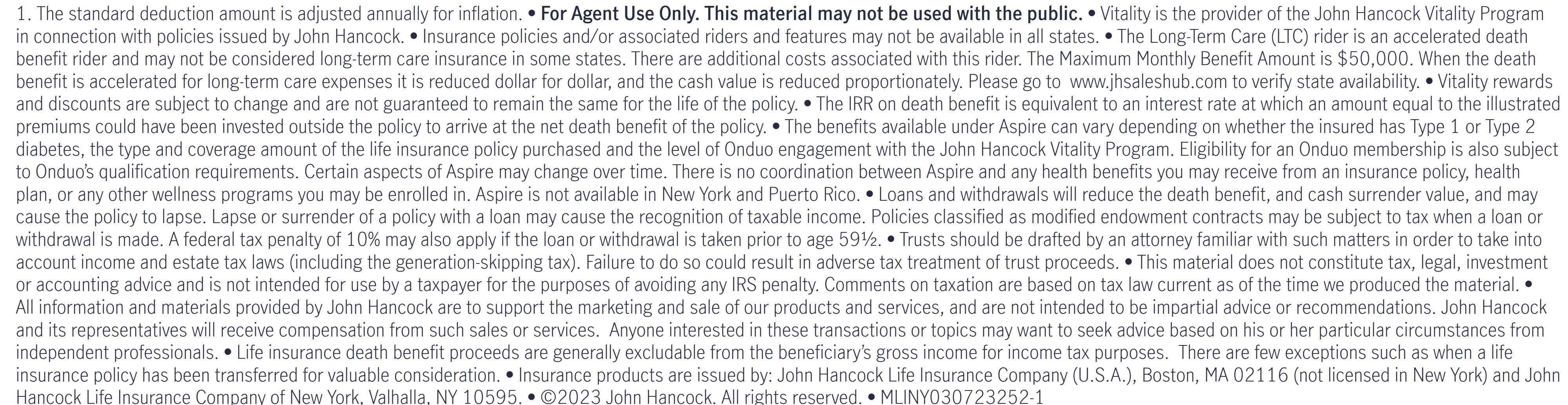
Remember not all information will apply to every client, but Form 1040 is a great tool to get the conversation started. The following online tools can be found at JHSaleshub.com.

- **Needs analysis calculator**
  Can help determine the appropriate amount of life insurance coverage.
- **Long-term care cost of care calculator**
  Breaks down regional costs of long-term care by state.
- **Know the law map**
  Breaks down estate taxes, income taxes, and creditor protection by state.
- **Business analyzer**
  An interactive tool to help business owners find the right type of plan.

Here is a quick checklist of recommended next steps:

- Meet with client
- Ask the right questions
- Prioritize goals
- Gather facts/information
- Create a plan
- Implement the plan
- Annually review the plan

For more information on these plans or to create a customized plan design, please call the Advanced Markets Group at **888-266-7498 option 3** or email at **advancedmarkets@jhancock.com**


1. The standard deduction amount is adjusted annually for inflation. • **For Agent Use Only. This material may not be used with the public.** • Vitality is the provider of the John Hancock Vitality Program in connection with policies issued by John Hancock. • Insurance policies and/or associated riders and features may not be available in all states. • The Long-Term Care (LTC) rider is an accelerated death benefit rider and may not be considered long-term care insurance in some states. There are additional costs associated with this rider. The Maximum Monthly Benefit Amount is $50,000. When the death benefit is accelerated for long-term care expenses it is reduced dollar for dollar, and the cash value is reduced proportionately. Please go to www.jhsaleshub.com to verify state availability. • Vitality rewards and discounts are subject to change and are not guaranteed to remain the same for the life of the policy. • The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy. • The benefits available under Aspire can vary depending on whether the insured has Type 1 or Type 2 diabetes, the type and coverage amount of the life insurance policy purchased and the level of Onduo engagement with the John Hancock Vitality Program. Eligibility for an Onduo membership is also subject to Onduo's qualification requirements. Certain aspects of Aspire may change over time. There is no coordination between Aspire and any health benefits you may receive from an insurance policy, health plan, or any other wellness programs you may be enrolled in. Aspire is not available in New York and Puerto Rico. • Loans and withdrawals will reduce the death benefit, and cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. • Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds. • This material does not constitute tax, legal, investment or accounting advice and is not intended for use by a taxpayer for the purposes of avoiding any IRS penalty. Comments on taxation are based on tax law current as of the time we produced the material. • All information and materials provided by John Hancock are to support the marketing and sale of our products and services, and are not intended to be impartial advice or recommendations. John Hancock and its representatives will receive compensation from such sales or services. Anyone interested in these transactions or topics may want to seek advice based on his or her particular circumstances from independent professionals. • Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration. • Insurance products are issued by: John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595. • ©2023 John Hancock. All rights reserved. • MLINY030723252-1

Quick View
TAX GUIDE

2023 and 2024

QUICK LINKS:

2023 Income and Payroll Tax Rates

2024 Income and Payroll Tax Rates

Corporate Tax Rate

Alternative Minimum Tax

Kiddie Tax on Unearned Income

Income Taxation of Social Security Benefits

Standard Deduction

Itemized Deductions

Deduction for Qualified Business Income

Capital Gains and Dividends

Long-Term Care Insurance Premiums - Deductibility Limits

Deductions for Contributions to Public Charities

Individual Retirement Accounts

Dollar Limits for Qualified Retirement Plans

Required Minimum Distributions (RMDs)

RMDs: Uniform Lifetime Table

RMDs: Single Life Expectancy Table

Estate and Gift Taxes

2023 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 11,000	$ 0	10%	$ 0
11,000	44,725	1,100.00	12%	11,000
44,725	95,375	5,147.00	22%	44,725
95,375	182,100	16,290.00	24%	95,375
182,100	231,250	37,104.00	32%	182,100
231,250	578,125	52,832.00	35%	231,250
578,125	----------	174,238.25	37%	578,125

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 22,000	$ 0	10%	$ 0
22,000	89,450	2,200.00	12%	22,000
89,450	190,750	10,294.00	22%	89,450
190,750	364,200	32,580.00	24%	190,750
364,200	462,500	74,208.00	32%	364,200
462,500	693,750	105,664.00	35%	462,500
693,750	----------	186,601.50	37%	693,750

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 15,700	$ 0	10%	$ 0
15,700	59,850	1,570.00	12%	15,700
59,850	95,350	6,868.00	22%	59,850
95,350	182,100	14,678.00	24%	95,350
182,100	231,250	35,498.00	32%	182,100
231,250	578,100	51,226.00	35%	231,250
578,100	----------	172,623.50	37%	578,100

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 11,000	$ 0	10%	$ 0
11,000	44,725	1,100.00	12%	11,000
44,725	95,375	5,147.00	22%	44,725
95,375	182,100	16,290.00	24%	95,375
182,100	231,250	37,104.00	32%	182,100
231,250	346,875	52,832.00	35%	231,250
346,875	----------	93,300.75	37%	346,875

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,900	$ 0	10%	$ 0
2,900	10,550	290.00	24%	2,900
10,550	14,450	2,126.00	35%	10,550
14,450	----------	3,491.00	37%	14,450

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$160,200	6.2%	$9,932.40
Self-Employed	$160,200	12.4%	$19,864.80

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filers)	1.45%	$3,625.00
	Initial $125,000 (married filing separately)	1.45%	$1,812.50
	Initial $200,000 (all others)	1.45%	$2,900.00
	Wages over $250,000 (joint filers)	2.35%	(no maximum)
	Wages over $125,000 (married filing separately)	2.35%	(no maximum)
	Wages over $200,000 (all others)	2.35%	(no maximum)
Employer	All wages	1.45%	
Self-Employed	Initial $250,000 (joint filers)	2.9%	$7,250.00
	Initial $125,000 (married filing separately)	2.9%	$3,625.00
	Initial $200,000 (all others)	2.9%	$5,800.00
	Wages over $250,000 (joint filers)	3.8%	(no maximum)
	Wages over $125,000 (married filing separately)	3.8%	(no maximum)
	Wages over $200,000 (all others)	3.8%	(no maximum)

2024 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 11,600	$ 0	10%	$ 0
11,600	47,150	1,160.00	12%	11,600
47,150	100,525	5,426.00	22%	47,150
100,525	191,950	17,168.50	24%	100,525
191,950	243,725	39,110.50	32%	191,150
243,725	609,350	55,678.50	35%	243,725
609,350	----------	183,647.25	37%	609,350

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 23,200	$ 0	10%	$ 0
23,200	94,300	2,320.00	12%	23,200
94,300	201,050	10,852.00	22%	94,300
201,050	383,900	34,337.00	24%	201,050
383,900	487,450	78,221.00	32%	383,900
487,450	731,200	111,357.00	35%	487,450
731,200	----------	196,669.50	37%	731,200

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 16,550	$ 0	10%	$ 0
16,550	63,100	1,655.00	12%	16,550
63,100	100,500	7,241.00	22%	63,100
100,500	191,950	15,469.00	24%	100,500
191,950	243,700	37,417.00	32%	191,950
243,700	609,350	53,977.00	35%	243,700
609,350	----------	181,954.50	37%	609,350

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 11,600	$ 0	10%	$ 0
11,600	47,150	1,160.00	12%	11,600
47,150	100,525	5,426.00	22%	47,150
100,525	191,950	17,168.50	24%	100,525
191,950	243,725	39,110.50	32%	191,950
243,725	365,600	55,678.50	35%	243,725
365,600	----------	98,334.75	37%	365,600

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 3,100	$ 0	10%	$ 0
3,100	11,150	310.00	24%	3,100
11,150	15,200	2,242.00	35%	11,150
15,200	----------	3,659.50	37%	15,200

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$168,600	6.2%	$10,453.20
Self-Employed	$168,600	12.4%	$20,906.40

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filers)	1.45%	$3,625.00
	Initial $125,000 (married filing separately)	1.45%	$1,812.50
	Initial $200,000 (all others)	1.45%	$2,900.00
	Wages over $250,000 (joint filers)	2.35%	(no maximum)
	Wages over $125,000 (married filing separately)	2.35%	(no maximum)
	Wages over $200,000 (all others)	2.35%	(no maximum)
Employer	All wages	1.45%	
Self-Employed	Initial $250,000 (joint filers)	2.9%	$7,250.00
	Initial $125,000 (married filing separately)	2.9%	$3,625.00
	Initial $200,000 (all others)	2.9%	$5,800.00
	Wages over $250,000 (joint filers)	3.8%	(no maximum)
	Wages over $125,000 (married filing separately)	3.8%	(no maximum)
	Wages over $200,000 (all others)	3.8%	(no maximum)

CORPORATE TAX RATE

Taxable income is taxed at a flat rate of 21%.

ALTERNATIVE MINIMUM TAX

Taxpayers are subject to an "alternative minimum tax" (AMT) instead of the regular income tax when they have substantial "preference income." This is income that is treated favorably under the regular income tax. Basically, the taxpayer must pay whichever tax is higher—the regular tax or the AMT.

Filing Status	2023 Exemption	2024 Exemption
Single or head of household	$81,300	$85,700
Married filing jointly	$126,500	$133,300
Married filing separately	$63,250	$66,650

The exemption amounts are phased out for higher-income taxpayers. The income thresholds are:

Filing Status	2023	2024
Married filing jointly	$1,156,300	$1,218,700
All other taxpayers	$578,150	$609,350

AMT Income in Excess of Exemption	2023	2024	AMT Rate
First	$220,700*	$232,600*	26%
Above	$220,700	$232,600	28%

*$110,350 / $116,300 for married persons filing separately

KIDDIE TAX ON UNEARNED INCOME

	2023	2024	Income Tax Bracket
First	$1,250	$1,300	No Tax
Next	$1,250	$1,300	Child's Bracket
Amounts Over	$2,500	$2,600	Parent's Bracket

The "kiddie tax" applies to: a) a child under age 18; b) a child age 18 whose earned income does not exceed one-half of his or her support; or c) a child age 19-23 whose earned income does not exceed one-half of his or her support, and who is a full-time student. Furthermore, the child does not file a joint income tax return and has at least one living parent at the end of the tax year.

INCOME TAXATION OF SOCIAL SECURITY BENEFITS

Retired taxpayers with incomes over certain threshold amounts are subject to income tax on their Social Security retirement benefits. The special tax base for determining whether a taxpayer's benefits are subject to tax equals one-half of Social Security benefits plus all other income (including tax-exempt income).

Filing Status	Tax Base	% of Benefits Taxed
Single or head of household	$25,000 - $34,000	50%
	Over $34,000	85%
Married filing jointly	$32,000 - $44,000	50%
	Over $44,000	85%
Married filing separately	Depends on whether the spouses live together during the tax year	

For example, a married couple filing jointly has an adjusted gross income of $30,000, tax-exempt interest of $3,000, and receives $24,000 in Social Security benefits. The special tax base for the couple equals $45,000, and $6,850 of the Social Security benefits are taxable (.50 x $12,000 = $6,000; .85 x $1,000 = $850; total $6,850).

STANDARD DEDUCTION

Amount - The standard deduction is a flat amount that a taxpayer may deduct in lieu of itemizing deductions. The standard deduction amount for each taxpayer category is:

Taxpayer Status	2023	2024
Single	$13,850	$14,600
Married filing jointly	$27,700	$29,200
Head of household	$20,800	$21,900
Married filing separately	$13,850	$14,600

Age 65 or Blind - Taxpayers who are age 65 or over, or who are blind, may take an additional standard deduction (provided they do not itemize). For 2023, the additional standard deduction amount is $1,500 if married or $1,850 if the person is unmarried and not a surviving spouse. For 2024, the additional standard deduction amount is $1,550 if married or $1,950 if the person is unmarried and not a surviving spouse.

ITEMIZED DEDUCTIONS

Interest Expense - Most personal interest paid is not deductible, with certain important exceptions:

Deductible	Not Deductible
1. Mortgage interest on one or two residences up to $750,000 of indebtedness (applies only to new mortgages taken out after December 15, 2017; older mortgages remain tied to the $1,000,000 cap)	1. Auto loan interest
2. Points on home mortgages	2. Credit card interest
3. Business interest	3. Home equity loan interest*
4. Investment interest up to net investment income	4. Most other consumer loan interest
	5. Prepaid interest other than points on home mortgages

State and Local Taxes - Itemizers may deduct either state and local income taxes, or state and local sales taxes. Also, itemizers may deduct state and local real property taxes and personal property taxes. The combined deduction for state property and income taxes is capped at $10,000. Taxpayers may not deduct state and local taxes in calculating the AMT unless they are deductible in computing adjusted gross income ("above-the-line" deductions, not itemized).

Medical and Dental Expenses - Expenses paid for nearly all medical, dental and vision care during the year, and not reimbursed by insurance or other means, are deductible by itemizers to the extent that the total of such expenses exceeds 7.5% of AGI.

Losses - Individuals can deduct two basic types of losses: 1) business losses incurred in the taxpayer's unincorporated business, or 2) investment losses if the investment was originally motivated by profit. Casualty and theft losses are not deductible except for declared national disasters.

* While the Tax Cuts and Jobs Act of 2017 eliminated the deduction for home equity interest for the years 2018-2025, the IRS determined that, subject to limitations, it will allow a deduction for interest from home equity loans or lines of credit secured by a taxpayer's main home or second home that are used to buy, build, or substantially improve the residence ("home acquisition debt").

DEDUCTION FOR QUALIFIED BUSINESS INCOME

Owners of pass-through entities are taxed on business income at their individual income tax rates, but may claim a 20% deduction of their share of the business income—even if they elect to use the standard deduction instead of itemizing.

A number of "specified service trades or businesses" do not qualify for the deduction, subject to the following thresholds on qualified business income:

Taxpayer Status	2023	2024
Single	$182,100	$191,950
Married filing jointly	$364,200	$383,900
Head of household	$182,100	$191,950
Married filing separately	$182,100	$191,950

These business owners face a deduction limitation phase-in equal to $100,000 for married filing jointly and $50,000 for all other filers.

CAPITAL GAINS AND DIVIDENDS

2023 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)	Married (Separate)	Head of Household	Estate or Trust
0%	$0 - $44,625	$0 - $89,250	$0 - $44,625	$0 - $59,750	$0 - $3,000
15%	$44,626 - $492,300	$89,251 - $553,850	$44,626 - $276,900	$59,751- $523,050	$3,001 - $14,650
20%	over $492,300	over $553,850	over $276,900	over $523,050	over $14,650

2024 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)	Married (Separate)	Head of Household	Estate or Trust
0%	$0 - $47,025	$0 - $94,050	$0 - $47,025	$0 - $63,000	$0 - $3,150
15%	$47,026 - $518,900	$94,051 - $583,750	$47,026 - $291,850	$63,001- $551,350	$3,151 - $15,450
20%	over $518,900	over $583,750	over $291,850	over $551,350	over $15,450

Holding Period - The long-term rate generally applies to gains on the sale of capital assets held for more than one year.

Short-Term Capital Gains - Net short-term capital gains (on sales of capital assets held for one year or less) are taxed at ordinary income rates.

Collectibles - Long-term capital gain from the sale of collectibles is taxed at a top rate of 28%.

Capital Losses - After capital gains and losses are netted against one another, any remaining net capital loss may be used to offset ordinary income up to $3,000 per year. Any excess net capital loss may be carried over and used in future years.

Sale of a Principal Residence - A seller of any age who has owned and used real property as a principal residence for at least two of the last five years can exclude from gross income up to $250,000 ($500,000 if married filing jointly) of gain realized on a sale.

Additional Tax on High-Income Taxpayers - Individuals with more than $200,000 in income ($250,000 for a married couple filing jointly), who also have investment income, will pay an additional tax of 3.8% on net investment income or the excess of modified adjusted gross income over the threshold amount (whichever amount is less). Investment income is defined as the sum of gross income from items such as interest, dividends, annuities, royalties, and rents, as well as net gain attributable to the disposition of property (i.e., capital gains).

LONG-TERM CARE INSURANCE PREMIUMS - Deductibility Limits

Age	2023	2024
40 and under	$480	$470
41-50	$890	$880
51-60	$1,790	$1,760
61-70	$4,770	$4,710
71 and over	$5,960	$5,880

Benefits received under a qualified long-term care insurance policy generally are excludable from gross income as amounts received for personal injuries and sickness, subject to a per diem limit. The per diem limit was $420 for 2023 and $410 for 2024.

DEDUCTIONS FOR CONTRIBUTIONS TO PUBLIC CHARITIES

Type of Property Contributed	Deemed Amount of Contribution	Percentage Limitation[1] 2023 and 2024
Cash	Actual dollar amount	60%
Appreciated ordinary income property[2] or appreciated short-term capital gain property[3]	Donor's tax basis	50%
Appreciated long-term capital gain property[4]		
(a) General rule	Fair market value	30%
(b) Election made to reduce amount of contribution	Donor's tax basis	50%
(c) Tangible personal property put to unrelated use by donee charity	Donor's tax basis	50%

[1] The applicable "percentage limitation'' applies to the donor's contribution base, which is the donor's adjusted gross income (AGI) determined without regard to any net operating loss carryback. The limitation is applied on an annual basis. Any deductible contributions that exceed the current year's limitations may be carried over and deducted in the five succeeding tax years, subject to the percentage limitations in those years.

[2] "Ordinary income property" is property that would produce ordinary income if sold by the individual.

[3] "Short-term capital gain property" is property that would produce short-term capital gain if sold by the individual.

[4] "Long-term capital gain property" is property that would produce long-term capital gain if sold by the individual.

INDIVIDUAL RETIREMENT ACCOUNTS

Traditional IRA

Contribution Limit - $6,500 ($7,500 for taxpayers age 50+) in 2023 and $7,000 ($8,000 for taxpayers age 50+) in 2024. Note: For tax years beginning in 2020, the age 70 1/2 limit on making traditional IRA contributions is eliminated.

Deduction Limit on Qualified Retirement Plan Participants -

- Taxpayers who do not participate in qualified retirement plans can deduct contributions to an IRA.
- Taxpayers who do participate in qualified retirement plans are subject to a reduced deduction based on modified adjusted gross income (MAGI).
- In 2023, the MAGI phase-out of the deduction for single taxpayers begins at $73,000 and the deduction is lost at $83,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $116,000 and the deduction is lost at $136,000.
- In 2024, the MAGI phase-out of the deduction for single taxpayers begins at $77,000 and the deduction is lost at $87,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $123,000 and the deduction is lost at $143,000.

Roth IRA

Contribution Limit - $6,500 ($7,500 for taxpayers age 50+) in 2023 and $7,000 ($8,000 for taxpayers age 50+) in 2024.

Contribution Limit Based on Modified Adjusted Gross Income - The amount taxpayers can contribute to a Roth IRA is subject to a MAGI phase-out.

- In 2023, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $138,000 and no contribution is permitted if MAGI is $153,000 or more. The MAGI phaseout on Roth IRA contributions for married taxpayers filing jointly begins at $218,000 and no contribution is permitted if MAGI is $228,000 or more.
- In 2024, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $146,000 and no contribution is permitted if MAGI is $161,000 or more. The MAGI phaseout on Roth IRA contributions for married taxpayers filing jointly begins at $230,000 and no contribution is permitted if MAGI is $240,000 or more.

Deduction Limit - There is no deduction for a contribution to a Roth IRA.

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS

	2023	2024
Defined Contribution Plans - Annual additions limit for defined contribution plans [IRC Sec. 415(c)]	$66,000	$69,000
Defined Benefit Plans - Annual benefit limit for defined benefit plans [IRC Sec. 415(b)]	$265,000	$275,000
401(k) - Annual limit on deferrals [IRC Sec. 402(g)]	$22,500	$23,000
Plus: age 50+ catch-up	$7,500	$7,500
403(b) - Annual limit on deferrals [IRC Sec. 402(g)]	$22,500	$23,000
Plus: age 50+ catch-up	$7,500	$7,500
Salary Reduction SEPs (SARSEPs) - Annual limit on elective deferral [IRC Sec. 402(g)]	$22,500	$23,000
Plus: age 50+ catch-up	$7,500	$7,500
Annual Limit on Elective Deferrals to 457 Plans - [IRC Sec. 457(b)(2)(c)(1)]	$22,500	$23,000
Plus: age 50+ catch-up	$7,500	$7,500
Maximum Annual Compensation - Amount of employee compensation that may be taken into account by plan formula (QRPs, 403(b), SEPs) [IRC Sec. 401(a)(17)]	$330,000	$345,000
Nondiscrimination Rules - For “highly compensated employees” [IRC Sec. 414(q)(1)]	$150,000	$155,000
Annual Compensation Subject to SEP Discrimination Rules [IRC Sec. 408(k)(3)(c)]	$330,000	$345,000
Compensation Threshold for SEP Participation - [IRC Sec. 408(k)(2)(c)]	$750	$750
Annual Limit on Elective Deferrals to SIMPLE Plans - [IRC Sec. 408(p)]	$15,500	$16,000
Plus: age 50+ catch-up	$3,500	$3,500

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

Starting in 2023, the required beginning date for RMDs is age 73 (up from age 72). This change to the RMD rules did not affect the rules for making Qualified Charitable Distributions—donors may still make QCDs directly from an IRA to charity starting at age 70 1/2 ($105,000 annual aggregate maximum in 2024). This includes a new QCD option that began in 2023—a one-time QCD up to $53,000 (in 2024) to fund a new charitable remainder trust or charitable gift annuity.

An individual who inherits retirement account assets must distribute those assets within 10 years of the account owner’s death, with no RMDs required during those 10 years. However, the following “Eligible Designated Beneficiaries” are excluded from this change and remain subject to the previous rules, which allow them to “stretch” payments over their life expectancy:

- Surviving spouses
- Minor children (until they reach the age of majority)
- Disabled or chronically ill individuals
- Individuals less than 10 years younger than the decedent

REQUIRED MINIMUM DISTRIBUTIONS: UNIFORM LIFETIME TABLE

The Uniform Lifetime Table is used to calculate lifetime required minimum distributions from qualified retirement plans (including 401(k) and 403(b) plans) and IRAs, unless the employee's beneficiary is a spouse who is more than 10 years younger or who is not the sole beneficiary. Married owners with a spouse who is more than 10 years younger use the Joint and Last Survivor Table.

For every calendar year for which a minimum distribution is required, find (1) the account balance on December 31 of the preceding year, (2) the account owner's age on his or her birthday during the distribution calendar year, and (3) the divisor that corresponds to that age in the Uniform Lifetime Table. The RMD for the distribution calendar year is (1) divided by (3).

IRAs funded with annuities may have additional benefits that need to be included when calculating RMD payments.

Note that the SECURE 2.0 Act increased the beginning date for RMDs from age 72 to 73 in 2023.

Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor
73	26.5	81	19.4	89	12.9	97	7.8	105	4.6	113	3.1
74	25.5	82	18.5	90	12.2	98	7.3	106	4.3	114	3.0
75	24.6	83	17.7	91	11.5	99	6.8	107	4.1	115	2.9
76	23.7	84	16.8	92	10.8	100	6.4	108	3.9	116	2.8
77	22.9	85	16.0	93	10.1	101	6.0	109	3.7	117	2.7
78	22.0	86	15.2	94	9.5	102	5.6	110	3.5	118	2.5
79	21.1	87	14.4	95	8.9	103	5.2	111	3.4	119	2.3
80	20.2	88	13.7	96	8.4	104	4.9	112	3.3	120+	2.0

Transition rules may apply to RMD payouts to beneficiaries of owners who died before this revised table became effective on January 1, 2022.

REQUIRED MINIMUM DISTRIBUTIONS: SINGLE LIFE EXPECTANCY TABLE

While the Uniform Lifetime Table determines RMDs during the owner's lifetime, the Single Life Expectancy Table determines RMDs for eligible designated beneficiaries who inherit IRAs or plan accounts. (Beneficiaries who are not eligible designated beneficiaries must withdraw the entire amount in the inherited account by the end of the tenth year following the year of inheritance.)

Eligible designated beneficiaries calculate RMDs using their birthday in the year following the account owner's death (which is the year distributions must begin), with the life expectancy number reduced by one for each subsequent year. Surviving spouses take the first distribution in the year the account owner would have turned 73, then use their own age as of their birthday in each subsequent year.

The details of the distribution rules and calculations for inherited accounts are complex. Beneficiaries should work with a professional advisor.

Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor
0	84.6	21	64.1	42	43.8	63	24.5	84	8.7	105	2.1
1	83.7	22	63.1	43	42.9	64	23.7	85	8.1	106	2.1
2	82.8	23	62.1	44	41.9	65	22.9	86	7.6	107	2.1
3	81.8	24	61.1	45	41.0	66	22.0	87	7.1	108	2.0
4	80.8	25	60.2	46	40.0	67	21.2	88	6.6	109	2.0
5	79.8	26	59.2	47	39.0	68	20.4	89	6.1	110	2.0
6	78.8	27	58.2	48	38.1	69	19.6	90	5.7	111	2.0
7	77.9	28	57.3	49	37.1	70	18.8	91	5.3	112	2.0
8	76.9	29	56.3	50	36.2	71	18.0	92	4.9	113	1.9
9	75.9	30	55.3	51	35.3	72	17.2	93	4.6	114	1.9
10	74.9	31	54.4	52	34.3	73	16.4	94	4.3	115	1.8
11	73.9	32	53.4	53	33.4	74	15.6	95	4.0	116	1.8
12	72.9	33	52.5	54	32.5	75	14.8	96	3.7	117	1.6
13	71.9	34	51.5	55	31.6	76	14.1	97	3.4	118	1.4
14	70.9	35	50.5	56	30.6	77	13.3	98	3.2	119	1.1
15	69.9	36	49.6	57	29.8	78	12.6	99	3.0	120+	1.0
16	69.0	37	48.6	58	28.9	79	11.9	100	2.8		
17	68.0	38	47.7	59	28.0	80	11.2	101	2.6		
18	67.0	39	46.7	60	27.1	81	10.5	102	2.5		
19	66.0	40	45.7	61	26.2	82	9.9	103	2.3		
20	65.0	41	44.8	62	25.4	83	9.3	104	2.2		

Transition rules may apply to RMD payouts to beneficiaries of owners who died before this revised table became effective on January 1, 2022.

ESTATE & GIFT TAXES

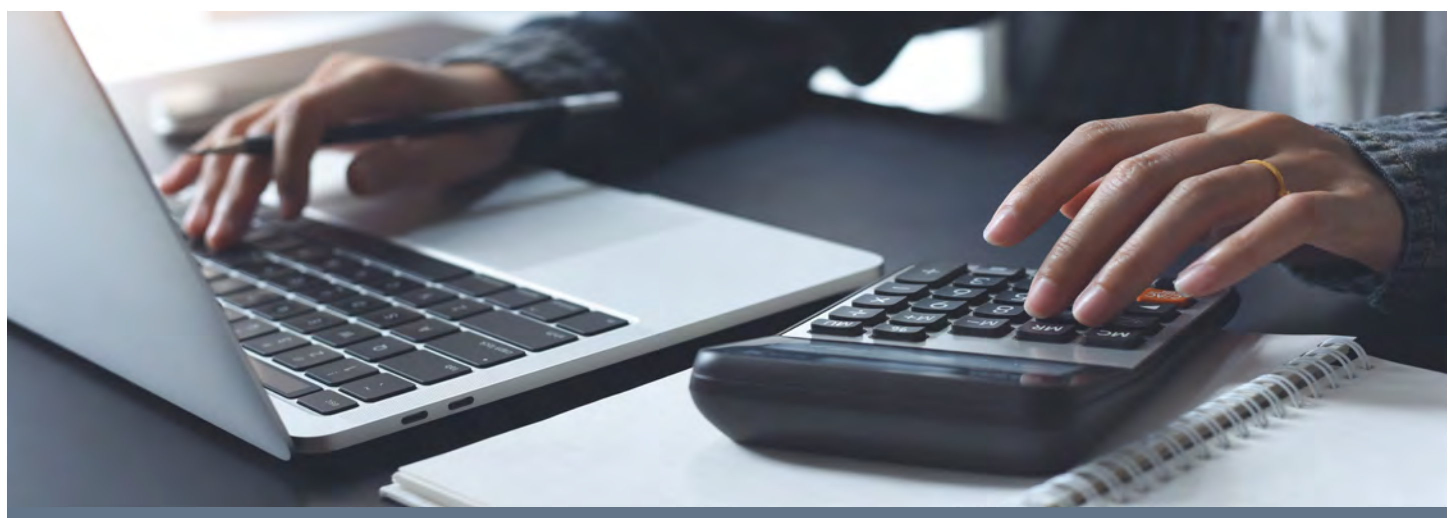
2023 and 2024 Gift and Estate Tax Rates:

Over	But not over	Flat Amount	+%	Of excess over
$0	$10,000	$0	18%	$0
$10,000	$20,000	$1,800	20%	$10,000
$20,000	$40,000	$3,800	22%	$20,000
$40,000	$60,000	$8,200	24%	$40,000
$60,000	$80,000	$13,000	26%	$60,000
$80,000	$100,000	$18,200	28%	$80,000
$100,000	$150,000	$23,800	30%	$100,000
$150,000	$250,000	$38,800	32%	$150,000
$250,000	$500,000	$70,800	34%	$250,000
$500,000	$750,000	$155,800	37%	$500,000
$750,000	$1,000,000	$248,300	39%	$750,000
$1,000,000	–	$345,800	40%	$1,000,000

Estate Tax	2023	2024
Top Estate Tax Rate	40%	40%
Estate Tax Applicable Exclusion Rate	$12,920,000	$13,610,000

Portability: The estate executor can elect to allocate the unused portion of a decedent's estate tax applicable exclusion amount to the surviving spouse.

Gift Tax	2023	2024
Top Gift Tax Rate	40%	40%
Annual Gift Tax Exclusion	$17,000 per donee	$18,000 per donee
Annual Gift Tax Exclusion for a Noncitizen Spouse	$175,000	$185,000
Lifetime Gift Tax Applicable Exclusion Amount	$12,920,000	$13,610,000



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WORKING WITH LEGISLATIVE CHANGES

Get ready now for 2026

In 2017, Congress passed a fairly broad tax reform called the Tax Cuts & Jobs Act (TCJA). When changes cause budgetary constraints, the rules of engagement for Capitol Hill require a law to sunset, which means they must expire.

Due to this required sunset, several of the rules that financial professionals have become comfortable with will expire at the end of 2025, unless Congress takes action.

The following are some of the provisions that could expire and provides some ideas for how to handle them.

Estate planning

- Currently, many high net worth and ultra-high net worth clients are using their lifetime exemption to complete transfers through gifting strategies and capital management strategies; in other words, these clients may need help reducing their estate for estate tax calculations and they need to complete these strategies before the end of 2025.
- The change to the lifetime exemption means we need to start planning for clients who would not be subject to the federal estate tax today but could be in 2026. Consider that a single individual with a $10 million dollar net worth today does not worry about this tax. But in 2026, that same estate could be subject to tax on values in excess of approximately $6.4 million - the lifetime exemption of $5 million in 2017, adjusted for inflation.
- Lower standard deduction may incentivize more clients to consider charitable planning. Financial professionals should familiarize themselves with ideas like Charitable Remainder Trusts, Private Foundations and Donor Advised Funds.
- Flexibility may be key; consider ideas such as Trust Protectors and trust mergers.

Income tax strategies

- Start talking to your clients about implementing executive benefits to defer income in the high tax bracket years that start in 2026.
- Complete Roth conversions to take advantage of today’s lower tax brackets.
- Lower standard deductions in 2026 may result in more clients itemizing their income taxes; with itemization comes greater motivation for using techniques such as charitable gifts.
- Investment fees will be deductible, again, under the miscellaneous 2% of Adjusted Gross Income deduction.

Corporate tax strategies

- Qualified Business Income Deduction will be eliminated but the flat corporate tax of 21% would remain. We might start to see more corporate conversions to C-Corp, and pass-through companies will need tax approaches in the form of deductions. We could see greater interest in qualified plans for the pass-through company to generate deductions.
  - Place key person, deferred compensation and buy-sell arrangements now.
  - Use the tax savings for pass-throughs and set aside the funds needed to get a head start on these legal obligations while the entity is paying lower taxes due to TCJA.
  - These tax savings may not be available in 2026.

Get started

Be sure to take your favorite attorney or accountant out to lunch!

Work with your clients' attorneys and accountants to determine the best course of action for possible 2026 sunsets.

Learn more

Interested in providing greater value to your clients? We're here to help. Contact the Securian Financial Advanced Sales Team today.

1-888-413-7860, option 3
Email the team

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Financial professional guide

Taxation of life insurance

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Life insurance taxation

What is the legal definition of a life insurance contract?

To qualify as life insurance, a life insurance policy must satisfy one of two tests: the cash value accumulation test (CVAT) or the guideline premium and cash value corridor test (GPT).[1] If at any time the contract fails to meet the test, the policy will not be treated as life insurance and will lose its tax-favored treatment.

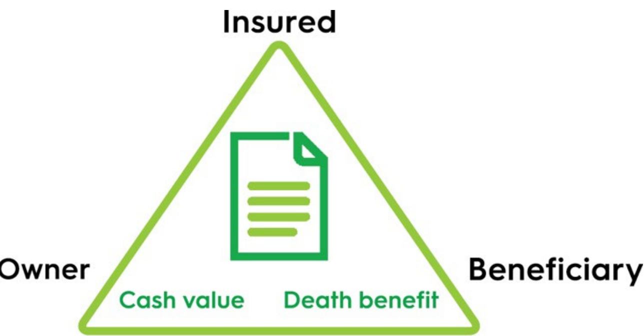
Test	Description	Commonly used for
Cash value accumulation test (CVAT)	An insurance policy will pass the CVAT requirements as long as the cash surrender value of the contract does not exceed the net single premium needed to fund the future benefits (death benefits on the primary insured) of the contract. The cash value accumulation test does not include additional coverage such as family term riders, accidental death benefits or waiver of premiums/charges.	Protection-focused cases
Guideline premium and cash value corridor test (GPT)	Under this test, two separate prongs must be satisfied to qualify as life insurance: 1. Under the first prong, the cumulative premiums paid into the contract cannot exceed the greater of a guideline single premium or the total sum of the annual guideline level premiums for each year the policy has been in force. 2. The second prong is a cash value corridor test. The death benefit at all times must be no less than the cash value multiplied by a specified percentage set forth in the IRC.[2]	Accumulation-focused cases

Who are the parties to a life insurance policy?

Outside of the life insurance carrier, there are three different parties to the life insurance policy:

1. **Owner –** The owner controls the policy and has access to the cash value of the policy.
2. **Insured –** The insured is the measuring life of the policy.
3. **Beneficiary –** The beneficiary is the individual or entity designated to receive the death benefit when the insured dies.

PARTIES OF A LIFE INSURANCE POLICY



Are premium payments deductible?

No. Generally, life insurance premiums are not deductible regardless of whether the policy is owned personally or owned by a business.[3] As a general rule, life insurance premiums are not deductible if the premium payer has any interest in the policy or proceeds.

How is the internal cash value buildup taxed?

Generally, any gain in the cash value of a life insurance policy above the basis is not subject to current income taxation as long as the policy meets the statutory definition of life insurance.[4]

Taxation of access to cash values:

Contracts that are not modified endowment contracts (MECs) are taxed first in-first out (FIFO). This means the policy owner can withdraw (partially surrender) up to the basis, without taxation. To avoid taxation on any distributions above the basis, policy loans are available to access the additional cash value. (See the modified endowment contracts section for more information on MECs.)

How are cash value withdrawals taxed?

In general, withdrawals from a policy's cash value are not taxed until the owner's entire basis in the contract has been withdrawn.[5] This is referred to as FIFO taxation (first in, first out). If all the basis in the contract has been withdrawn, any future withdrawals will be subject to income tax. Both MEC and DEFRA recapture can change this general rule (see the modified endowment contracts or DEFRA recapture rules sections for more information).

How are policy loans taxed?

Policy loans taken from a life insurance policy are not taxable transactions unless the policy is a MEC.[6] If the insured dies while a loan is outstanding, the loan will be repaid out of the death benefit and no taxation will occur at the time of death, regardless of MEC status. There may be tax ramifications if the policy is surrendered, lapses or exchanged with the loan still outstanding.

What are the tax ramifications if the policy is surrendered?

If the policy is surrendered, the cash value will be taxable as ordinary income to the extent that it exceeds the owner's basis in the contract.[7] Any loss incurred is not deductible as personal expense, nor as a capital loss.

Two-step process to determine tax ramifications of a surrender:

1. Determine the basis in the life insurance contract.

Generally, the basis in the contract is the total premiums paid less the total amount of untaxed distributions. Untaxed distributions include cash dividends paid and withdrawals taken from the policy.[8] Policy loan transactions do not affect the cost basis of the policy.

2. Determine the amount of gain (loss) in the life insurance contract.

To determine the amount of gain or loss in the contract, the net surrender value of the contract must be calculated. The net surrender value is the amount of cash the owner will receive upon surrender. Net surrender value of a contract is calculated by subtracting outstanding loans and surrender charges from the accumulation value.

Next, the "total surrender proceeds" within the contract must be determined, as this is used to determine the amount of gain (or loss) within the contract. Adding back the outstanding loans to the net surrender value results in the Total Surrender Proceeds. Subtracting the Basis from the Total Surrender Proceeds results in the Total Income Taxable Amount of the surrender.

As an example, assume a non-MEC contract with $100,000 of accumulation value, a surrender charge of $10,000, $45,000 premiums paid, $5,000 in untaxed withdrawals previously taken, $15,000 outstanding loan balance.

Premiums paid:	$45,000
Less Previous Untaxed Withdrawals:	-$5,000
Basis in the contract:	**$40,000**
Accumulation Value:	$100,000
Less Surrender Charge:	-$10,000
Less outstanding loan balance:	-$15,000
Net Surrender Value:	**$75,000**
Plus outstanding loan balance:	$15,000
Total Surrender Proceeds	**$90,000**
Total Surrender Proceeds:	$90,000
Minus Basis:	-$40,000
Total Income Taxable Amount:	**$50,000**

This is a hypothetical example for illustrative purposes only.

How is the death benefit income taxed?

In general, life insurance death benefits are received income tax-free.[9] However, there are some situations where life insurance death benefits may be taxable, such as:

- If the policy is transferred for valuable consideration and no exception applies (please see section on transfer for value)
- If the policy is employer-owned and does not qualify for an exception under Section 101(j) (please see section on employer-owned life insurance — notice and consent)

How is the death benefit estate taxed?

In general, the death benefit will be subject to estate taxation in the insured's estate in the following situations:

1. Insured held incidents of ownership in the policy

Life insurance proceeds are includible in the insured's estate if the insured possessed any incidents of ownership or if the proceeds are payable to, or for the benefit of, the insured's estate.[10] Incidents of ownership include any rights to the economic benefits of the policy, including:[11]

- The power to change the beneficiary
- The power to surrender or cancel the policy

- The power to assign the policy
- The power to revoke an assignment
- The power to pledge the policy for a loan or to obtain from the insurer a loan against the surrender value of the policy
- A reversionary interest in the policy

Please note, absent from the list is the payment of premiums. Payment of premiums by the insured will not cause any part of the policy proceeds to be includible in the insured's gross estate.[12] If the decedent had the right to exercise any of these incidents of ownership alone or jointly with another person, the policy's value will be included in the estate. It makes no difference if the decedent was mentally or physically incapable of exercising an incident of ownership prior to death; the mere existence of the incident of ownership is enough to cause the policy to be taxed in the estate. The IRS has agreed that the right to convert a group term life insurance policy into a permanent policy upon termination of employment is not an incident of ownership.[13]

2. Insured held incidents of ownership in the policy within three years of death

Please see section on the three-year rule.

3. Proceeds payable to/for the benefit of insured's estate

Life insurance proceeds will be included in the decedent's gross estate if they are paid to the estate or applied for the benefit of the estate.[14] If the trustee is under a binding obligation to pay the debts, taxes, and other charges against the estate, then the amount of the proceeds needed to pay those costs is included in the decedent's estate. This is true even if the proceeds are not actually used for this purpose.[15]

Modified endowment contracts

What is a MEC policy?

A modified endowment contract (MEC) is any life insurance policy that violates the seven-pay premium test (test period starts at issue and lasts seven years). In addition, another seven-year test period starts when a material change occurs, such as a face increase or future benefit addition.

What is the seven-pay test?

The seven-pay test is a test established under every life insurance contract that gives a maximum premium level per year that can be paid into the contract without causing a MEC. This is a cumulative test, so if the seven-pay level is $30,000, the most premium that can be paid in year 1 is $30,000. The most cumulative premium that can be paid through year 2 is $60,000, and the most cumulative premium paid through year 3 is $90,000. If the first-year premium, in this example, was $10,000, then year 2, the policy owner could pay up to $50,000 and still avoid MEC since they would not have paid more than the cumulative $60,000 limit. This test is not the same as, nor dependent on, the Definition of Life Insurance that is used on the contract.

When does the seven-pay test apply?

The seven-pay test applies for the first seven years of the contract, or the next seven years after a material change. If a material change in year 10 of the contract, then a new seven-pay level is determined and for the next 7 years, any premiums paid going forward would be tested against this new seven-pay level.

What is a material change?

A material change to a life insurance policy is any increase in benefit to the policy owner. This could be done with an increase in face amount, an addition of a rider, or an improvement in an underwriting class, etc.

What is the “necessary premium test”?

At any point during the contract, if the sum of the premiums hits the necessary premium test, the contract will experience a material change and a new seven-pay test will be triggered. This new seven-pay level may be lower than the previous level and less annual premiums will be allowed to avoid becoming a MEC.

For GPT-tested products, the necessary premium test level is basically the same as the definition of life insurance testing. The client cannot hit the necessary premium test without also violating the definition of life insurance, therefore no material changes occur because of the necessary premium test.

For CVAT-tested products, the necessary premium test is not the same test as the definition of life insurance, and a material change can occur on well-funded contracts.

Do reductions in face amount during the seven-pay period affect MEC status?

Reductions in face amount during the seven-pay period would result in a new seven-pay level being determined based on the new, lower face amount. This is not a material change as the benefits have been reduced, not increased. When this reduction occurs during the seven-pay period and a new seven-pay level is determined, the contract will look at past premium payments and determine if the premiums paid in the past would have violated the seven-pay test since issuance or the last material change. If they would have, the contract becomes a MEC.

Special note for survivorship contracts

Survivorship contracts have a lookback for the entirety of the contract, not just during the seven-pay period. So, a reduction in face amount at any time during the contract causes a new seven-pay level to be determined, and premium payments during the first seven years of the contract, or seven years since the last material change, are tested against the new seven-pay level. This is of importance in survivorship contracts designed for accumulation purposes as creating a material change after premium payments have stopped allows the new testing to be completed against years when no premiums were made.

What are the tax ramifications of a MEC policy?

Most important, a MEC policy will still retain income tax-free inside buildup and income tax-free death benefit. However, any lifetime distributions and/or loans from a MEC will be treated differently and taxed under the annuity rules.

Cash value distributions from a MEC are treated as coming from income first and cost basis last.[16] Therefore, unlike a cash withdrawal from a non-MEC policy, all withdrawals are taxable to the extent of the gain in the policy. In addition, "deemed distributions," such as policy loans and the pledging of a MEC policy as collateral are also treated as taxable distributions on a LIFO basis.[17] Furthermore, distributions made within the two years prior to the policy becoming a MEC will be treated as being made in anticipation of the policy's becoming a MEC and will be taxed LIFO as well.[18]

A 10 percent premature distribution penalty tax also applies to distributions from a MEC.[19] However, there are exceptions to the 10 percent penalty tax for MECs. The penalty will not apply if the distribution is made:

1. After the taxpayer attains age 59½, or
2. Due to a qualifying disability of the taxpayer, or
3. As part of substantially equal periodic payments made for the lifetime of or based upon life expectancy of the taxpayer.[20]

Examples

George, age 50, pays $1,000/year for 8 years on his policy. He withdraws $2,000 from the policy in year 8 when the cash value is $10,000.

Assume the life insurance policy is a MEC.

Does George pay income tax on the $2,000?	Yes
Instead of withdrawing, what if he borrowed the $2,000?	Yes
What other tax ramification applies in this case?	10 percent penalty tax because George is not 59½ yet.

Assume the policy is a non-MEC.

Does George pay income tax on the $2,000?	No, but watch out for DEFRA (15-year rule).
Instead of withdrawing, what if he borrowed the $2,000?	No
What other tax ramification applies in this case?	No 10 percent penalty tax because there is no income tax.

This is a hypothetical example for illustrative purposes only.

DEFRA recapture rules

What is the DEFRA recapture rules?

DEFRA is an acronym for the Deficit Reduction Act of 1984. This act introduced the 15-year rule with the intent to further discourage the use of life insurance as an investment vehicle (known as the DEFRA recapture rules). Violation of the 15-year rule modifies the tax treatment of withdrawals made during the first 15 years of a contract. The 15-year rule applies to a policy when, during the first 15 years of the contract, there is a withdrawal from the policy coupled with a reduction in benefits. Policy loans do not trigger the 15-year rule and are not considered withdrawals under this rule.

What are the tax ramifications?

Some or all of the withdrawal may be taxable. The taxable amount is calculated using formulas and recapture ceilings as specified under the Internal Revenue Code (IRC) Section 7702. New illustrations and in-force ledgers will identify a DEFRA concern with a "£." This symbol merely signifies the potential violation of DEFRA.

The rules apply if all of the following conditions exist:

- The life insurance policy was purchased or acquired within the last 15 years (including tax-free exchanges)
- A withdrawal is taken. Loans do not count as withdrawals.
- The face amount of the policy is decreased in conjunction with the withdrawal of cash value
- There is a gain in the policy

These rules don't apply to the following situations:

- The face amount remains level following the withdrawal
- Policy loans
- There is no gain in the policy
- Withdrawals occurring after year 15
- Violation of these rules may result in a withdrawal of cash value being treated as taxable income. The amount that would be taxable is the LESSER of:
    - The total gain in the contract (cash value less the investment in the contract), or
    - The calculated recapture amount, or
    - The amount of the withdrawal.

1035 tax-free exchanges

What is a 1035 tax-free exchange?

There may be circumstances where a policy owner may wish to exchange an existing policy for another policy that will better fit the client's current insurance needs. Under certain conditions, Section 1035 of the IRC provides that no gain or loss will be recognized on the exchange of a life insurance policy for another life insurance policy. Basically, in order to qualify for tax-free exchange treatment under Section 1035, the transaction must be a "like-kind" exchange.

When a 1035 exchange occurs, the basis in the old contract is "carried over" to the new contract.[21]

What are the definitions of life insurance and MEC testing implications of a 1035 tax-free exchange?

The cash value from the exchanged policy is treated as premium for the definition of life insurance testing under the guideline premium test. This means that the guideline single premium of the new policy must be equal to, or higher than, the cash value from the exchanged policy, plus any first-year premium. For CVAT products, the CVAT does not consider the amount of premium paid and is only concerned with the cash value amount in relation to the death benefit amount for definition of life insurance testing. Because of this, CVAT products do not limit the amount of 1035 that can be accepted, although the death benefits may be greater than the face amounts at issue due to the corridor testing.

The cash value from the exchanged policy is treated as cash value in the new policy for seven-pay testing purposes (MEC testing) under both the guideline premium test and the cash value accumulation test. This means that the 1035 exchanged value will lower the seven-pay number but does not create a MEC unless the exchange is from an already existing MEC contract. A new MEC contract can be created only if the 1035 exchange is from an already existing MEC, or if additional premium is paid into the new contract greater than the seven-pay number.

Please note, the exchange will start a new seven-pay MEC period and a new 15-year DEFRA recapture rule period for the exchanged policy. This new testing is regardless of when the original policy was issued (watch out for pre-1984 policies).

What are the elements for 1035 tax-free exchange?

In general, six elements must be met in order to keep the exchange tax-free:

1. There must be an exchange of one contract for another contract.

An exchange "requires that the taxpayer relinquish ownership in one insurance policy and, as a result thereof, acquire ownership in a second insurance policy."[22] It does not apply to the movement of policy funds from an existing policy into another existing policy. But it may be possible to exchange one policy for multiple policies, or multiple policies for one policy.[23]

2. The insured(s) must be the same on both the old policy and the new policy.[24]

An exception is where an insured on a second-to-die policy is deceased, and the surviving insured wants to exchange the policy for a single-life policy.[25]

Note: A 1035 tax-free exchange of one second-to-die policy to another second-to-die policy is acceptable if the owners and insureds are the same. A 1035 exchange of a first-to-die policy to a second-to-die policy does not satisfy this rule, because the insureds are not the same.

3. **The owner(s) on both the new and old contracts must be the same.**[26] However, transfers may be accomplished either prior to or following a tax-free exchange. Watch out for transfer-for-value and step transaction issues when transferring policies.
4. **The life insurance policy can be exchanged only for another life insurance policy, an endowment contract, an annuity or a qualified long-term care contract.**[27]
5. **A life insurance policy can only be exchanged for another life insurance policy.** Neither a standalone long-term care contract, nor an annuity can be exchanged for a life insurance policy.
6. **A MEC policy can only be exchanged for another MEC policy.**

What are the tax ramifications of the receipt of "boot" in a 1035 exchange?

If a taxpayer receives property, money or other non-like-kind property, other than a life insurance policy in a Section 1035 exchange, any gain in the policy will be recognized to the extent such property or money is received.[28] This is referred to as boot.

For instance, policy loans not carried forward to the new contract will result in taxation of the lesser of the gain in the old policy or the loan amount.[29] Further, withdrawals taken in conjunction with a 1035 exchange will result in taxation to the lesser of the gain in the contract or the withdrawal amount.[30]

Where the old policy's loan is carried forward to the new policy — that is, the new policy is issued with the outstanding loan — the transaction can be structured to be treated tax-free.[31]

Minnesota Life and Securian Life do not take policies with loans as a 1035 exchange.

Example: George has $8,000 in basis in his contract. He has $10,000 of cash accumulation value. He takes a loan for $3,000 from his policy, leaving $7,000 of cash surrender value. Subsequently, he decides to 1035-exchange the policy for a different policy but does not carry it forward to the new policy.

Boot implications: George will need to recognize gain equal to the lesser of boot (the loan of $3,000) or the gain in the contract. To determine the gain in the contract, you will compare the difference between the policy's cash accumulation value ($10,000) and his basis in the old policy ($8,000). George will need to recognize taxable boot in the amount of $2,000 ($10k - $8k = $2k). The gain is $2,000, while the loan elimination is $3,000. Because George is taxed on the lesser of these two amounts, he will be taxed on $2,000.

This is a hypothetical example for illustrative purposes only.

Note: Independently, the loan elimination does not result in a taxable event, nor does the 1035 exchange. But when done in conjunction, taxation does result. This is due to the step transaction doctrine.

The step transaction doctrine basically dictates that a series of separate steps will be collapsed into one step, with the tax consequences applying to one step rather than each of them separately.

The IRS will view the use of policy values to pay down a loan, followed by an exchange, as a step transaction. Thus, a partial surrender and exchange is treated as an exchange with boot in an amount equal to the debt extinguished, and as a result, a taxpayer will be immediately taxed on the partial surrender to pay off the loan.

The risk of taxation may be diminished if a sufficient time gap occurs between the partial surrender of the policy values and the exchange itself. The IRS has not addressed what a reasonable time gap constitutes, so taxpayers are urged to consult with their tax advisor.

As a potential solution, the client could pay off the policy loan before the exchange by using other assets. The client could then, subsequent to the exchange, borrow from the new policy as needed to replace the assets used or to pay off any other financing obtained.

What are the implications of policy withdrawals shortly before or after a 1035 exchange?

The boot treatment of withdrawals made from a policy either shortly before or after a 1035 exchange may be problematic. Typically, a taxpayer may treat withdrawals as tax-free returns of basis, up to a taxpayer's basis in the policy (if a non-MEC).[32] The IRS, however, has indicated that withdrawals made from a policy to pay off an existing policy loan, followed shortly by a 1035 exchange of the policy constituted a single integrated transaction taxable under code section 1035, resulting in tax on the withdrawal as boot (site). Interestingly, the IRS reached a different result in a private letter ruling involving the proposed pay-off of a policy loan after a 1035 exchange by using funds withdrawn from the new policy, holding that the subsequent policy withdrawal would be taxed under code section 72, not as boot under code sections 1035 and 1031.[33] A possible solution is to allow a sufficient amount of time (e.g., 6 to 12 months) to pass between any 1035 exchange and a policy withdrawal. If a withdrawal is required, it is likely better to make the withdrawal from the new policy after the 1035 exchange, not before, which aligns with the IRS's favorable private ruling.

Transfer for value

In general, amounts received under a life insurance contract that are paid due to the death of the insured are excluded from gross income for federal income tax purposes under 101(a)(1). However, if a life insurance contract or interest therein is sold or otherwise transferred for valuable consideration, the "transfer for value rule" set forth in section 101(a)(2) limits the excludable portion of the death benefit to the sum of the consideration paid for the contract or interest therein and any premiums and other amounts subsequently paid by the transferee.

What is the transfer-for-value rule?

The transfer-for-value rule, contained in IRC section 101(a)(2), provides:

In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance contract or any interest therein, the amount excluded from gross income by [the beneficiary of death proceeds under a life insurance contract] shall not exceed an amount equal to the sum of the actual value of such consideration and the premiums and other amounts subsequently paid by the transferee.

The transfer-for-value rule provides that when a policy is transferred for valuable consideration, the death proceeds received in excess of the consideration paid are taxed as ordinary income (as opposed to tax-free under the general rule for life insurance proceeds).[34] Consequently, running afoul of the transfer-for-value rule must be avoided at all costs.

What is valuable consideration?

Valuable consideration is the term used to describe the exchange of one thing of value, for another thing of value. The most common example when discussing life insurance is the exchange of cash for the ownership rights of a life insurance contract. But the ownership rights of a life insurance contract can be exchanged for consideration that is not cash. For example, the transfer of a life insurance contract to an employee at retirement. The employee may not pay cash for the ownership rights, but the transfer is deemed to have been completed in exchange for the labor of the employee. Here the labor of the employee is the valuable consideration. You can also have a situation where two individuals who are affecting a buy-sell plan endorse death benefit to each other. The valuable consideration in that case is the death benefit rights received in exchange for the death benefit rights given to the other party. The endorsement is giving each party ownership rights in the other party's life insurance contract and therefore they exchange those rights for valuable consideration.

What are the tax consequences of transferring ownership of a life insurance policy?

Under the transfer-for-value rule, changing the ownership of a life insurance policy for money or other material consideration can have two potential income tax results:

1. The existing owner realizes tax on the policy's gain in the year of the transfer
2. At the death of the insured, the beneficiary incurs income taxes on the death benefit in excess of the new owner's basis. (The basis is what the new owner paid for the policy and any subsequent premium payments.)

Some points to remember:

- It does not matter whether the policy is term or permanent insurance
- It applies to group as well as individually purchased life insurance coverage
- The method of how the policy is transferred is irrelevant
- It can apply even if ownership of a policy has not been transferred, such as cross endorsing a policy in a buy-sell
- A mere shift in an interest in the contract may be sufficient to trigger the rule
- For the rule to apply, there must be both a transfer of a policy or an interest in a policy and valuable consideration paid for that transfer to the transferor

What are the five exceptions to the transfer-for-value rule?

There are five safe-harbor exceptions that may shelter a transfer from the transfer-for-value rule penalty (even if there is a transfer for valuable consideration). The “safe harbors” are:

1. Transferor’s basis (“in whole or in part”); such as a gift of a policy;
2. Transfer to the insured;
3. Transfer to a partner of the insured;
4. Transfer to a partnership in which the insured is a partner;
5. Transfer to a corporation in which the insured is a shareholder or officer.

Please note: Transfers to a co-stockholder are not protected and will trigger the transfer-for-value rule.

Implications of the Tax Cuts and Jobs Act of 2017 (TCJA)

TCJA modified the prior-law exceptions of the transfer for value rules to include a new reportable policy sale requirement applicable to all transfers for valuable consideration.[35] TCJA requires a determination that the transaction is not a reportable policy sale before deciding whether the transaction falls under existing exemptions to avoid the transfer-for-value rules tax liability.

The changes to the tax code do not alter the transfer-for-value rules, but rather add an additional layer of analysis. An in-depth analysis of these modifications is beyond the scope of this document.

Goodman Rule

What is the Goodman Rule?

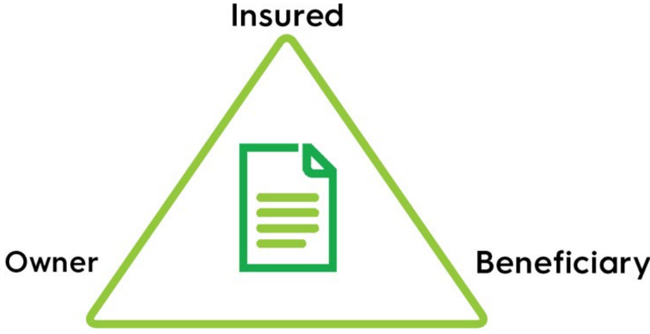
Watch out for the Goodman Rule (aka Unholy Trinity) where the owner, insured and beneficiary are all different individuals. The result of this arrangement will be a completed gift from the owner of the policy to the beneficiary when the insured dies or the beneficiary becomes irrevocable. This will cause gift tax issues for the owner.

Example

For example, let's say Son owns a policy on Father with Son and Daughter as the beneficiaries of the policy with a $2.0 million death benefit. If Father dies before Son, and Son is still the owner of the policy, then it will be treated for gift purposes as a $1.0 million gift from Son to Daughter.

This is a hypothetical example for illustrative purposes only.

GOODMAN RULE (Unholy Trinity)



Insured, owner and beneficiary — all separate parties

In order to avoid the Goodman Rule, the policy will need to be owned by all of the beneficiaries in the same percentage as the death benefit they are to receive. This kind of co-ownership of life insurance policies can be cumbersome to arrange with the insurance companies.

Note regarding business-related life insurance policies:

A three-party scenario can also occur in the business planning space. For example, in an employer/business scenario where a business owns a policy on the life of an employee or owner (shareholder, member, partner, etc.) and names an outside entity or person/individual as the beneficiary. This is not technically a Goodman Rule issue, as gifting typically does not occur in the business setting (some exception with family transactions), so therefore does not result in a gift tax issue. However, this type of transaction can cause an income tax issue on the death benefit received by the third-party beneficiary. To avoid taxation in this situation, the insured (employee/owner-employee) will need to pay or recognize an economic benefit, each year, associated with the death benefit payable to their chosen beneficiary.[36]

Three-year rule

What is the three-year rule?

When the insured transfers an insurance policy or an interest in an insurance policy and dies within three years of that transfer, the death proceeds will be included in the insured's estate. Several cases suggest that when the trustee initiates the purchase and is the original owner of the policies, the three-year rule is not applicable.[37]

Situations in which this commonly occur are usually related to the transfer of a policy that is individually owned and is then gifted to an irrevocable life insurance trust (ILIT) typically created to deal with estate tax liquidity.

To lessen the chance of an IRS challenge, some precautions can be taken:

- The trustee should initiate the purchase and apply for the insurance coverage
- The trustee should not be required to purchase life insurance, only authorized or allowed to purchase life insurance
- The grantor(s) should not make premium payments to the life insurance company, but instead should make cash gifts to the trustee
- The trustee should make the premium payments to the life insurance company out of a separate checking account for the trustee
- If possible, gifts to the trustee should be of an amount different from the annual premium and made before premiums are due
- If the grantor transfers, without consideration, an insurance policy or any incident of ownership with respect to the policy during the three-year period preceding his or her death, the death benefit will be included in the insured's estate.[38] Practitioners should plan to avoid this problem where possible.
- Fortunately, it can be avoided in several different ways.

1. New policies

If it is a new policy, then use an informal inquiry to start the life insurance process. In one case, the insured submitted an application wherein the insured was listed as the owner. The application stated that the policy would not be issued until the premium was paid. A supplemental application was subsequently submitted with a child of the insured as owner and the premium paid. When the insured died a year later, the Service held that the insured never possessed an incident of ownership since the initial application stated that the policy would not be issued until the payment of premium.[39]

2. Existing policies

If it is an old policy, then consider:

Purchasing a new policy. Financial professionals should consider using a new policy rather than existing policy owned in the client's estate. The main reason for using a new policy is that a gift of an existing policy owned by the insured clearly falls under the three-year rule. But the purchase of a new policy by the irrevocable trust will not be subject to the three-year rule. Please note: financial professionals should consider the age and health of the insured, as a new policy may not be feasible if the insured is quite elderly or is in poor health.

3. The Estate Preservation Agreement (EPA).

This rider helps reduce estate tax risk for transfer of a life insurance policy from the insureds to an irrevocable life insurance trust (ILIT). It provides additional term coverage for the first four years of the contract. This helps offset estate taxes if the policy is included in the insureds' taxable estate due to the three-year look-back rule for a transfer (or gift) of policy ownership. There is no charge for this agreement.

4. Draft the trust with Section 2035 provisions.

The trust may be drafted with a safety-net provision in the event the insured dies within three years of the purchase of the policy and Section 2035 is applied.

This provision would change the distribution scheme of the trust by giving the surviving spouse an interest in the proceeds, which would qualify for the marital deduction. Such a clause can postpone the estate tax on the proceeds until the surviving spouse's death to the extent not consumed or given away before that time.

5. Purchase existing policy from the individual.

The grantor of the trust can gift cash to the trust, then the trustee can purchase the policy from the policy owner. This would be considered a sale and not a gift, which would not trigger the three-year rule. This could, potentially, trigger some gift tax depending on the amount of cash being gifted to the trust.

Notice and consent requirements for employer-owned life insurance

What is employer-owned life insurance (EOLI)?

An EOLI contract is defined as a life insurance policy issued after August 17, 2006, that:

- Is owned by a person engaged in a trade or business, and that person (or a related person) is directly or indirectly a beneficiary under the contract, and,
- Insures an employee of the policy owner's trade or business or a related person (collectively the "applicable policyholder") on the date of the contract's issuance.[40]

To fit within any exception to EOLI taxation, policyholders must satisfy certain notice and consent requirements prior to issuance of the EOLI contract. The IRS issued the following guidance regarding compliance with the notice and consent requirements.[41]

There are two exceptions:

1. An exception will apply if the insured under the contract was (1) an employee at any time during the 12 months prior to his or her death, or (2) a director or a highly compensated employee or individual at the time the contract was issued.[42]
2. Death benefits are either (1) paid to the insured's estate, family members, or other designated beneficiaries (other than the policyholder), or a trust for the benefit of any such individuals, or (2) used to purchase an equity (or capital or profits) interest in the applicable policyholder from any person described above. However, these exceptions are applicable only if the notice and consent requirements are met before the issuance of an EOLI contract.

What type of business strategies qualify as EOLI?

As a general rule, whenever a business entity will own a life insurance policy (including wholly owned corporations and sole proprietorships). Specifically in the business succession strategies:

Entity redemption buy-sell – The business owns the policy insuring the business owner and receives the death benefits to fund the owner's buyout.

Lifecycle LLC buy-sell – A separate partnership or LLC is used to hold life insurance on the owners of an operating business to fund the buy-sell of the operating business.

Key person life insurance – A business owns the policy to protect it against the loss of a key employee, owner, director, etc.

Non-qualified deferred compensation plans – Any policy used to fund a non-qualified plan which is owned by the business. IRC §457(f) plans may have similar considerations.

Supplemental Executive Retirement Plans (SERPs) – Policies purchased as general asset reserves to fund non-qualified voluntary salary/ bonus deferral plans or supplemental executive retirement plans.

Endorsement split-dollar arrangements – Any policy where the business owns the policy, and the business (or a related person) will receive the death benefits. The IRS stated that life insurance policies issued in cross-purchase arrangements generally will not qualify as EOLI contracts for purposes of IRC Section 101(j).[43]

Please note: Changes or exchanges of grandfathered policies:

Any change to a grandfathered policy — or an IRC Section 1035 exchange of a

grandfathered policy for a new policy if there is a material change (i.e., an increase in face amount or other benefit) — may require satisfaction of the Notice and Consent guidelines.

What is the notice requirement?

The employee must receive written notification that the applicable policyholder intends to insure the employee's life; reasonably expects to purchase a specified maximum amount of life insurance (stated either in dollars or as a multiple of salary) on the employee during the employee's tenure; and will be a beneficiary of any proceeds payable upon the death of the employee.

What is the consent requirement?

The employee must provide written consent to being the insured and to the continuation of coverage after termination of the insured's employment. The contract must be issued (1) within one year after the employee's consent or (2) before the termination of the employee's employment, whichever is earlier.

How do you comply with these EOLI rules?

EOLI compliance is the policyholder's responsibility. In any potential EOLI situation involving a Minnesota Life or Securian Life policy, there are two steps:

1. The employer must sign a copy of Minnesota Life Insurance Company's form F66015 or Securian Life Insurance Company's form FSL-66015, "Employer Notification Regarding the Potential Taxation of Death Benefits" before the policy is issued and return to the financial professional. This form simply notifies the employer of its potential obligations under these rules. It does not relieve the employer of its obligation to obtain a signed notice and consent from the prospective insured.
2. The client should discuss the EOLI rules with an attorney and, if the EOLI rules apply, obtain a signed notice and consent from the insured before the policy is issued. Minnesota Life and Securian Life have a sample "Insured's Acknowledgement of Notice and Consent — Employer-Owned Life Insurance Policy." It is the employer's obligation to obtain a signed form from each prospective insured before the policy is issued. The employer should retain these signed forms and file them along with their life insurance policies. The employer must also report these policies to the IRS annually by attaching completed Form 8925 to the employer's annual income tax return.

While the Service presumes that an employee will receive a separate form for notice and consent, a recent private letter ruling held that a separate document was not required where the totality of the applicable policyholder's documentation in connection with the EOLI contract evidenced that all the notice and consent requirements were met prior to contract issuance (specifically a buy-sell agreement and a life insurance application, both executed by the insured employee prior to issuance of the contract, which together contained all the required notice and consent information).[44] Accordingly, for existing EOLI contracts, an employer may be able to evidence notice and consent without separate documentation if it can demonstrate that all required notice and consent information was included in one or more documents that were provided to and/or executed by the insured employee prior to the contract's issuance. For newly issued contracts, however, obtaining a separately executed notice and consent form from the insured employee will more easily and clearly document compliance.

What are the annual requirements?

In addition, EOLI policyholders must file Form 8925 with their annual federal tax returns for each year that an EOLI contract is owned to report certain information regarding EOLI contracts, including the number of employees insured, the total insurance held under EOLI contracts and the number of non-consenting insured employees (if any). The policyholder must also keep whatever records may be necessary to evidence compliance.

What happens if the business inadvertently fails to satisfy the notice and consent requirements?

The only situations in which the IRS will not challenge inadvertent failures to satisfy the notice and consent requirements are if:[45]

- The applicable policyholder made a good faith effort to satisfy the notice and consent requirements (e.g., maintains a formal system for notice and consent for new employees);
- The failure to satisfy the requirements was inadvertent; and
- The failure to obtain the notice and consent was discovered and corrected by the due date of the tax return for the taxable year in which the EOLI contract was issued. (Failure to obtain consent cannot be corrected if the insured employee has died.)

Otherwise, removing the "taint" of an improperly issued EOLI contract often involves (1) cancelling the existing policy and issuing a new one or (2) affecting a material increase in the policy death benefit or other material change in the contract. The notice and consent requirements must be satisfied prior to the issuance of a new policy or to a material change in an existing policy.

Valuation of life insurance policies

How do you value a life insurance policy for income tax purposes?

The Service has provided a safe harbor on how to determine the fair market value of a life insurance policy for income tax purposes.[46] The fair market value may be the greater of either: (1) the interpolated terminal reserve and any unearned premiums or (2) the product of the "PERC amount" (PERC is premium, earnings and reasonable charges) and the applicable "average surrender value."

How do you value a sale of a life insurance policy for income tax purposes?

If a life insurance policy is sold by an owner (with insurable interest), to an unrelated party (without insurable interest), the seller is taxed on the difference between the selling price of the policy and the seller's adjusted cost basis.

The adjusted cost basis will be the premiums paid for the policy less the cost of insurance charges paid. This is taxed as ordinary income up to the value that would have been received if the policy were surrendered and capital gain for the excess.[47] The purchaser will take a basis in the policy equal to the amount paid for the contract plus any additional premiums it pays. When a policy is sold, the transfer-for-value rules will in most cases cause the death benefit proceeds to become taxable in excess of the purchaser's basis in the policy.[48]

How do you value a life insurance policy for gift and estate tax purposes?

When an existing life insurance policy is gifted to an irrevocable trust, a taxable gift takes place.[49] The value of the gift is the fair market value of the policy on the date of transfer. This is the price that the property would bring when changing hands between a willing buyer and a willing seller. The fair market value is determined by reference to all the facts and circumstances relating to the transfer.[50]

Because there are no organized market forces available to determine the fair market value of a life insurance policy, the IRS issued regulations to provide guidance to what constitutes the fair market value of a life insurance policy for estate and gift tax purposes. The fair market value of the policy depends on the type of policy.

If the policy is a new policy (contracts transferred immediately after purchase or those within the first year), the fair market value is the "cost" of the policy.[51] The "cost" is the gross premiums paid by the transferor. If the policy is an annual premium contract, each premium thereafter is a gift.[52]

When a cash value policy is transferred with additional premiums being paid, its fair market value is measured by the interpolated terminal reserve value on the date of the gift plus any unearned premium.[53] If there are accrued dividends on the policy, these must also be added. Outstanding policy loans should be subtracted from this value.[54]

If the gift is one of a single premium or an existing paid-up policy, the value equals the single premium the insurance company would charge for a comparable contract issued at the insured's attained age at the time of transfer.[55] An employee can assign his or her group term insurance, made available by his or her employer, to an irrevocable trust. The gift is valued annually as the Table I cost of the coverage if the group plan is non-discriminatory.[56]

These regulations are only guidance, and the IRS may review all the facts and circumstance relating to the transfer. Therefore, if an insured is in imminent danger of dying on the transaction date (any time within a year), the IRS may claim the policy to be valued at amounts closer to the death benefit payable.

For gift tax purposes, the value of the policy must be reported on IRS Form 709. Instructions for the form stipulate that if a value of a life insurance policy is being reported, IRS Form 712 should be attached for each policy. Typically, Form 712 is completed by the insurance company. The form comports with the IRS guidance on life insurance valuation and requires that certain values (interpolated terminal reserve and unearned premiums) be reported on the form.

How do you value the tax deduction for a gift of a life insurance policy for charitable purposes?

The valuation of the tax deduction for a gift of a life insurance policy depends how the policy was gifted.

Outright gift at death

The outright gift of a life insurance policy at death is a simple technique. The donor names the charity as the beneficiary of the life insurance policy. There is no current income tax deduction, and the policy will be includible in the donor’s estate (but will be offset by an estate tax charitable deduction). This approach may be suitable for a donor who plans to use the cash value of a policy for retirement income but doesn’t need the death benefit.

A gift of an insurance policy also provides estate tax benefits. One problem with transfers of life insurance policies is that a donor’s estate will include a policy transferred by him or her within three years of his or her death.[57] The inclusion amount is the policy’s face value.[58] If, however, the donor transfers the policy to a qualified charitable organization, the estate qualifies for an estate tax charitable deduction equal to the face value of the policy, and this offsets the inclusion of the insurance policy in his or her estate.[59]

Gift of an existing policy during lifetime

An individual may transfer an existing life insurance policy to a charity. The donor is entitled to a current income tax deduction if the transfer is irrevocable and includes the donor’s entire incidents of ownership in the policy. Please note: The charity must have an insurable interest in the donor’s life under state law.[60] Please check your state law regarding insurable interest.

In order to take a charitable income tax deduction, the IRS does require the use of a qualified appraiser for charitable gifts of donated property with a fair market value of more than $5,000.[61] This includes gifts of life insurance.

Gift of policy on which premiums remain to be paid

The donor may get two deductions for their gift of a policy on which premiums remain to be paid:

First, the contribution of the policy is deductible at the policy’s interpolated terminal reserve value on the date of the gift increased by the proportionate part of the donor’s last pre-gift premium payment covering the period beyond the gift.[62] If the interpolated terminal reserve value exceeds the donor’s cost basis in the policy, then the deduction is for cost basis.[63]

Second, the continued payment of the premiums gives him or her an income tax deduction for the annual premium amount.[64]

A gift of a paid-up policy

The donor's gift of a paid-up policy to a charity results in a deduction valued at the policy's replacement cost.[65] If the replacement of the policy exceeds the donor's cost basis in the policy, the donor reduces his or her deduction to cost basis.[66]

Type of policy	The deduction is equal to the lesser of:
Recently issued	Cost basis or fair market value of the contract (defined as the first premium paid)
Existing life policy in premium paying mode	Cost basis or fair market value of the contract (defined as the interpolated terminal reserve plus unearned premium)
Paid-up life insurance policy	Cost basis or fair market value of the contract (defined as the replacement value of the contract – what the donor would have to pay for a new single premium policy with the same death benefit at his or her current age)

Summary

Personal taxation issues

Event	Ramifications
Premium payments	Not deductible
Accumulation	Generally, tax deferred
Withdrawals	Non-MEC (FIFO Taxation) – Generally tax-free withdrawals up to basis and loans are non-taxable events. MEC (LIFO Taxation) – Withdrawals are taxed similar to annuities; watch out for 10% penalty for clients under 59½. Surrender – Taxable as ordinary income on the extent that it exceeds the owner's investment in the contract.
Death of insured	Generally, income tax-free but watch out for: • Estate tax issues • Three-year rule • Gift tax issues – Goodman Rule

Business taxation issues

Event	Ramifications
Contributions	Who owns the contract? / Who pays the premium? Employer pays/employer owns – Generally, not deductible Employer pays / Employee owns – Employer can deduct as bonus/compensation Employee – Bonus taxed as income
Note: For pass-through entities, if the business owner is taking a bonus for their own premium payments, the deduction the business takes will be equal to the amount that is includable in the business owner's income. There is no tax benefit to this arrangement since the rates are the same.	
Accumulation	Generally, tax deferred
Withdrawals	Business never age 59½, DEFRA
Death of insured	Generally, income tax-free but watch out for: • EOLI – Notice and consent • Transfer of value

1. IRC Sec. 7702(a). For all policies issued after December 31, 1984. Generally, policies issued prior to 1982 do not have a statutory definition of life insurance, but they must contain the traditional element of insurance, namely risk shifting and risk sharing.
2. IRC Sec. 7702(d)(2) lists the required corridor percentages by age.
3. IRC Sec. 264(a), Treas. Reg. Sec. 1.262-4(B)(1).
4. IRC Sec. 7702(g).
5. IRC Sec. 72 (e)(5).
6. IRC Sec. 72(e)(5).
7. IRC Secs. 72(e)(5)(A) & 72(e)(5)(E), Treas. Reg. Sec. 1.72-11(d)(1). See also IRC Secs. 61(a) & 72(a), Cohen v. Commissioner, 39 TC 1055 (1963), and Rev. Rul. 2009-13.
8. IRC Sec. 72(e)(6), Rev. Rul. 2009-13, Treas. Reg. Sec. 1.72-6(a) (1)15.
9. IRC Sec. 101(a)(1).
10. IRC Sec. 2042.
11. Treas. Reg. 20.2042-1(c)(2).
12. Rev. Rul. 71-497.
13. Rev. Rul. 84-130.
14. IRC Sec. 2042.
15. See Perry v. Commissioner 91-1 USTC Paragraph 60,064 (5th Cir. 1991); Estate of Headrick v. Commissioner, 90-2 USTC Paragraph 60,049 (6th Cir. 1990); Estate of Leder v. Commissioner 893 F.2d 237 (10th Cir. 1989).
16. IRC Sec. 72(e)(10).
17. IRC Sec. 72(e)(4)(A).
18. IRC Sec. 7702A(d).
19. IRC Sec. 72(v)(1).
20. IRC Sec. 72(v)(2).
21. RC Sec. 1031(d).
22. PLR 8810010.
23. PLRs 9644016 and 970816.
24. Treas. Reg. 1.1035-1(c).
25. PLR 9330040 ; PLR 9248013.
26. IRC Sec. 1035; Treas. Reg. 1.1035-1(c).
27. IRC Sec. 1035(a).
28. IRC Secs. 1035(c)(1), 1031(b).
29. IRC Secs. 1035(c)(1), 1031(b); Treas. Reg. Sec. 1.1031(d)-1(c).
30. Treas. Reg. 1.1031(d)-2.
31. PLR 9604033.
32. IRC Sec. 72(e).
33. PLR 8816015.
34. IRC Sec. 101.
35. IRC Sec. 101(a)(3).
36. Treas. Reg. 1.61-22.
37. See Perry v. Commissioner 91-1 USTC Paragraph 60,064 (5th Cir. 1991); Estate of Headrick Commissioner, 90-2 USTC Paragraph 60,049 (6th Cir. 1990); Estate of Leder v. Commissioner 893 F.2d 237 (10th Cir. 1989).
38. IRC Sec. 2035.
39. See TAM 9323002. In TAM 9323002, life insurance proceeds were not included in an insured's estate where (1) the insured applied for the policy, (2) the insured then had the policy split into two policies and named her two sons as owners and beneficiaries prior to paying any premiums, (3) the insured's sons paid all premiums, and (4) the insured died within three years of purchase of the policy. The memorandum determined that under the terms of the contract and state law no contract existed prior to the time that the first premium was paid and the life insurance contract was issued and delivered. The memorandum also concluded that although it appeared that the decedent passed something of value to her two sons (i.e., although the insurance company's premium rates had increased between steps 1 and 2, the earlier lower premium rates were obtained by the sons), it was unlikely that such transfer constituted a transfer of incidents of ownership.
40. IRC Sec. 101(j). For this purpose: (1) a "related person" is any person with a relationship to the policy owner as specified in IRC §§267(b), 707(b)(1), 52(a) or 52(b); and (2) an "employee" is a U.S. citizen or resident who is an officer, director or certain highly compensated employees as defined in IRC §414(q).
41. Notice 2009-48.
42. For this purpose, (1) a "highly compensated employee" is defined in Code §414(q) but ignoring paragraph (1)(B)(ii) (i.e., any employee who is a 5% owner or had compensation from the employer in excess of $150,000 (inflation adjusted)), and (2) "highly compensated individual" is defined in Code §105(h) (5), but substituting 35% for 25% (i.e., an individual who is (a) one of the five highest paid officers, (b) a shareholder who owns (with the application of the constructive ownership rules of IRC §318) more than 10% of the employer's stock, or (c) among the highest paid 35% of all employees).
43. Notice 2009-48.
44. PLR 201217017.
45. Notice 2009-48.
46. Rev. Proc. 2005-25.
47. Rev. Rul. 2009-13.
48. Rev. Rul. 2009-14.
49. Treas. Reg. 25.2511-1(h)(8).
50. Treas. Reg. 25.2512-1.
51. Treas. Reg. 25.2512-6(a) Example 1.
52. Guggenheim v. Rasquin, 312 U.S. 254 (1941); Powers v. Commissioner, 312 U.S. 259 (1940).
53. Treas. Reg. 25.2512-6(a).
54. Treas. Reg. 20-2031-8(a)(2); Rev. Rul. 78-137.
55. Treas. Reg. 25-2512-6.
56. Rev. Rul. 76-490; Rev. Rul. 79-47; PLR 7751080.
57. IRC §2035(a) & (d)(2).
58. IRC §2042.
59. IRC §2055(a).
60. See PLR 9110016.
61. IRC Sec. 1.170A-13(c).
62. Treas. Reg. §25.2512-6(a); Rev. Rul. 59-195.
63. IRC §170(e)(1)(A).
64. Awrey v. Commission, 25 T.C. 643 (1955). See also PLR 8714037.
65. Treas. Reg. §25.2512(a).
66. IRC §170(e)(1)(A).

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and the policies may contain restrictions, such as surrender periods. Variable life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods. There may also be underlying fund charges and expenses, and additional charges for riders that customize a policy to fit individual needs. Charges and expenses may increase over time. The variable investment options are subject to market risk, including loss of principal.

Additional agreements may be available. Agreements may be subject to additional costs and restrictions. Agreements may not be available in all states or may exist under a different name in various states and may not be available in combination with other agreements.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

Dividends are not guaranteed and may vary based on the actual experience of mortality, expenses and investments.

This material may contain a general analysis of federal tax issues. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

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Asset characteristics
Tax facts[1]

Advanced Markets

Investment portfolio allocations generally focus on risk vs. reward considerations, while tax issues are often overlooked. Just as important as diversifying the investment of your personally owned assets across different asset classes, it is important to understand the legal and tax treatment accorded to the assets that make up your portfolio.

The following chart highlights the normal treatment accorded to some commonly held assets. It addresses tax issues and other issues that can impact the net value of these assets in your hands, or the hands of your heirs or beneficiaries, from the time they are acquired until the time they are liquidated or distributed. This chart can be an effective tool to guide you in assessing your current and future asset allocations.

		Qualified plans/IRA[2]	Equities	Tax-free bonds	Annuities	Life insurance
Acquisition	Contribution legal limits	Limited	None	None	None	None
	Acquisition dollars	Tax-deductible[3]	After-tax	After-tax	After-tax	After-tax
Accumulation	Income (dividends and/or interest)	Tax-deferred	Taxable	Tax-free[4]	Tax-deferred	Tax-deferred
	Growth	Tax-deferred	Tax-deferred	Tax-deferred	Tax-deferred	Tax-deferred
	Repositioning	Tax-free	Taxable	Taxable	Tax-free	Tax-free
Distribution	Income tax on income	Account taxable (prior to age 59½, 10% penalty may apply)	Gain taxable	Gain taxable	Account taxable (prior to age 59½, 10% penalty may apply)	Basis tax-free,[5] loan tax-free[6]
	At death included in taxable estate	Included[7]	Included[7]	Included[7]	Included[7]	If owned by the insured — yes[7]; If owned by another (spouse, a trust, etc.) — no
	Taxed upon liquidation at death	Taxable	Adjusted to fair market value at death	Adjusted to fair market value at death	Taxable	Tax-free[8]
	Creditor protection	Yes	No	No	State law controls	State law controls

Please be advised this chart is based on our general understanding of federal tax rules for U.S. individuals and is not intended as legal or tax advice. Your clients should consult their own tax advisor. Also, your clients should consult with their advisor regarding the individual characteristics of any product or investment purchase. All these products and investments have different characteristics and levels of risk. Equitable Financial, Equitable America and Equitable Distributors do not provide tax and legal advice. Clients should consult with tax and legal professionals on these matters. This list provides only a general overview of the tax treatment. There may be variations within a client's own portfolio that may differ from this chart.

Life Insurance: • Is Not a Deposit of Any Bank • Is Not FDIC Insured • Is Not Insured by Any Federal Government Agency • Is Not Guaranteed by Any Bank or Savings Association • Variable Life Insurance May Go Down in Value

Talk to your financial professional to learn more, or visit equitable.com today.

1 Specific circumstances of assets held in an individual portfolio may result in different treatment than is reflected here. Clients must consult their own tax advisors regarding the actual treatment of their personal assets.

2 Does not include Roth IRAs.

3 There are limitations on tax-deductible contributions to qualified plans and IRAs. Please consult with your tax advisor for additional information.

4 Income from municipal bonds may be subject to the Alternative Minimum Tax (AMT), and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax. Interest income from municipal bonds may impact how Social Security benefits are taxed. Please consult with your tax advisor for additional information.

5 Withdrawals other than loans and in excess of basis, taxable.

6 While non-MEC policy remains inforce, loans remain tax-free. Termination may trigger tax.

7 Currently 40% maximum federal rate.

8 Policy must meet Definition of Life Insurance Tests and, if subject to employer-owned life insurance (EOLI) requirements, the employer and employee must satisfy all EOLI requirements.

Life insurance products are issued by Equitable Financial Life Insurance Company (NY, NY) or Equitable Financial Life Insurance Company of America, an Arizona stock corporation with its main administration office in Jersey City, NJ 07310 and are co-distributed by Equitable Network, LLC (Equitable Network Insurance Agency of California in CA; Equitable Network Insurance Agency of Utah in UT; Equitable Network of Puerto Rico, Inc. in PR) and Equitable Distributors, LLC. Variable products are co-distributed by Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN) and Equitable Distributors, LLC. When sold by New York state-based (i.e., domiciled) financial professionals, life insurance products are issued by Equitable Financial Life Insurance Company, (NY, NY).

Variable universal life products and variable annuities are sold only by prospectus, which contains complete information on charges, investment risks and expenses of the investment company. These charges should be considered carefully before investing. The prospectus should be read carefully before investing or sending money.

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Managing your tax bracket

Life insurance to protect against tax rate ups and downs

It's always important to diversify and spread your risk among many investments. Diversification can help protect you from fluctuations among different assets and asset classes.[1]

But what about diversifying your tax rate exposure?

By diversifying among different financial products, you may have the ability to protect yourself against fluctuations in tax rates. Why is this important? During years with high tax rates, you may want to have the option to take funds from tax-free investments. In today's uncertain tax and budget environment, planning for this is all the more important.

The problem

Rosie and Bennett are a middle-aged couple. They're saving for retirement, but need to care for their children and plan for college. Bennett is also looking at life insurance to help protect the family in case something happens to him. At the same time, the couple is funding their IRAs and 401(k)s, but know these won't address all they need for retirement.

The possible solution

Carl, their financial professional, shows them an option — cash value life insurance. It offers Rosie and Bennett:

- Death benefit protection in case something happens to Bennett during his working years.
- Access to policy-available cash surrender values that grow tax-deferred.
- During the couple's retirement years, any available cash surrender value can be taken from the life insurance policy via withdrawals and loans. So long as the life insurance remains inforce, the funds can be received income tax-free.
- The couple can use these tax-free withdrawals and loans to supplement income in years they need added income without increasing their tax bracket.[2]
- Withdrawals and loans from life insurance policies are exempt from the 3.8% Medicare surcharge.

A final added benefit

Life insurance cash values, along with the couple's IRA and 401(k) accounts, aren't included in the expected family contribution calculations for college financial aid.

Meet Rosie and Bennett

- Need life insurance
- Think taxes will increase
- Need more retirement income than Social Security, their IRAs and other current savings can provide
- Already maximum funded

1 Diversification is a method of asset allocation. It does not guarantee a profit or protect against a loss. A diversified method of investing may result in a loss of principal to the investor.

2 Loans and withdrawals reduce the policy's cash value and death benefit, and increase the chance the policy may lapse. If the policy lapses, terminates, is surrendered or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy cash values.

Life Insurance: • Is Not a Deposit of Any Bank • Is Not FDIC Insured • Is Not Insured by Any Federal Government Agency • Is Not Guaranteed by Any Bank or Savings Association • Variable Life Insurance May Go Down in Value

Managing your tax bracket

Rosie and Bennett have a number of sources of income to meet their $125,000 target income, but they're worried about taxes. Each year they will take nondiscretionary payments, such as Social Security and their required distributions, from taxable retirement funds. This fills up their lower tax brackets, totaling $89,450 and paying $10,294 in taxes.

Added benefit with life insurance

With life insurance, the funds can be pulled out free of income taxes. The couple has the option to withdraw or borrow less, and still meet the same after-tax amount they need to live on.

The chart shows how Rosie and Bennett fill their higher tax brackets.[3] Once they take $89,450 in income, the next dollar they take will be taxed at 22%. They need an additional $35,550 to meet their income goal of $125,000. They will pay $7,821 in taxes if they take the $35,550 from taxable income (IRA, pension distributions, other taxable income). They will pay $0 in taxes if they take the $35,550 from nontaxable income (life insurance cash value, Roth IRA and municipal bond interest).

		Lower tax brackets filled first: Social Security, IRA and pension distributions, and other taxable income				**Higher tax brackets:** Rosie and Bennett have a choice — taxable income, cash values, Roth IRAs and municipal bond interest		**Total**
		First $22,000	+	Next $67,450	+	Next $35,550	=	$125,000
Without life insurance planning	Tax rate	10%		12%		22%		
	Taxes due	$2,200	+	$8,094	+	$7,821	=	$18,115
Compare		**$89,450 taxable**				**$35,550 nontaxable**		**Total**
		First $22,000	+	Next $67,450	+	Next $35,550	=	$125,000
With life insurance planning	Tax rate	10%		12%		0%		
	Taxes due	$2,200	+	$8,094	+	$0	=	**$10,294**
						43% savings	=	**$7,821**

Some considerations before moving ahead:

Carefully review all the features, benefits and costs of a cash value life insurance policy with your financial professional before making a purchase. There are many other differences between Roth IRAs, municipal bonds and permanent life insurance.

- If your life insurance policy lapses, you will lose the death benefit and may lose substantial money in the early years.
- To be effective, you need to hold the policy until death. A life insurance policy generally takes years to build up a substantial cash value.
- Tax-free distributions will reduce the cash value and face amount of the policy. You may need to pay higher premiums in the later years to keep the policy from lapsing.
- You must qualify medically and financially for life insurance.

3 Assumes tax calculations made for tax year 2023, married filing jointly.

Why Equitable?

Our Advanced Markets experts meet the changing needs of clients with complex challenges through powerfully simple strategies, including:

Strong life insurance portfolio with competitive cash value product options.

A wide selection of riders to choose from, including the Charitable Legacy Rider®, which offers an additional death benefit to the charity(ies) of your choice at no added cost.

Strength and stability. For more than 160 years, we've been working with clients across generations, building on what's proven and pursuing what's possible.

To learn more, call your financial professional or visit equitable.com.

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Managing when and how you're taxed

There are many ways you can set aside money for retirement. How you allocate your money may help enhance your retirement distributions by adjusting how and when you are taxed.

NON-QUALIFIED: Using after-tax dollars may create income that will be taxed in its current year.

QUALIFIED: Utilizing pre-tax dollars defers taxation until distribution.

TAX-EXEMPT: After-tax dollars vehicles for potential tax-free growth.

CURRENT

Many people don't consider how they are taxed and typically rely on vehicles that get taxed in the current year or later in life at distribution.

Tax in Current Year (1099)

- **Mutual Funds**
- **CD/MMAs**[1]
- **Real Estate**

Tax at Distribution

- **Traditional 401(k)**[2]
- **Traditional IRA/SEP/SIMPLE**
- **Annuities**[3]
- **403(b)**[2]
- **457(b)**[2]

Tax Advantaged

- **Municipal Bonds & Bond Funds**[4]
- **Life Insurance**[5]
- **Roth IRA/401(k)**[6]

FUTURE

A more balance approach will help provide greater tax control of your money.

Which opportunities are you currently using?

Tax in Current Year (1099)

___

___

___

Tax at Distribution

___

___

___

Tax Advantaged

___

___

___

Policies issued by **American General Life Insurance Company** (AGL), Houston, TX except in New York, where issued by **The United States Life Insurance Company in the City of New York** (US Life).

AGLC201847

After all, it's not necessarily how much money you have that is important... it's how much you get to keep that really matters.

Contact your financial professional to discuss how products within these categories may fit your financial needs along with helping you better diversify your portfolio.

[1] Certificate of Deposit/Money Market Accounts.

[2] Does not include amounts invested in Roth 401(k)/TSA/457(b).

[3] Non-qualified annuities purchased with after-tax dollars enjoy the same tax-deferred growth and ordinary income taxation as qualified annuities

[4] May be subject to Alternative Minimum Tax (AMT) and may impact taxation of Social Security benefits.

[5] Life insurance death benefits are generally income-tax free pursuant to U.S. IRC §101(a). Contract cash values can be accessed during the insured's lifetime via loans and withdrawals. Loans are generally income-tax free as long as the policy remains inforce. Withdrawals are tax free to the extent of basis. Policies which are modified endowment contracts (MECs) receive less favorable tax treatment.

[6] Qualified distributions are income-tax free. Roth IRA distributions are qualified if the account has been open for five tax years, and the owner is age 59½, dies, is disabled, or is a first-time homebuyer ($10,000 lifetime limit). Roth 401(k) distributions are qualified if the plan participant has contributed to the account for five tax years, is 59½, dies or disabled.

Not a deposit | Not insured by any federal government agency | May lose value | No bank or credit union guarantee | Not FDIC/NCUA/NCUSIF insured

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NOT INSURED BY ANY GOVERNMENT AGENCY		

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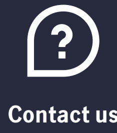
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The case for tax diversification in retirement planning

Don't put all your tax eggs in one basket

It's a reality that taxes impact retirement goals. Does your current retirement plan contemplate future tax exposure? Many retirees are often shocked by the toll that taxes can take on their investment portfolios when they begin to access money for retirement.

If you are concerned about potential tax exposure in retirement, the good news is there are planning decisions available today that can help alleviate your tax exposure in the future.

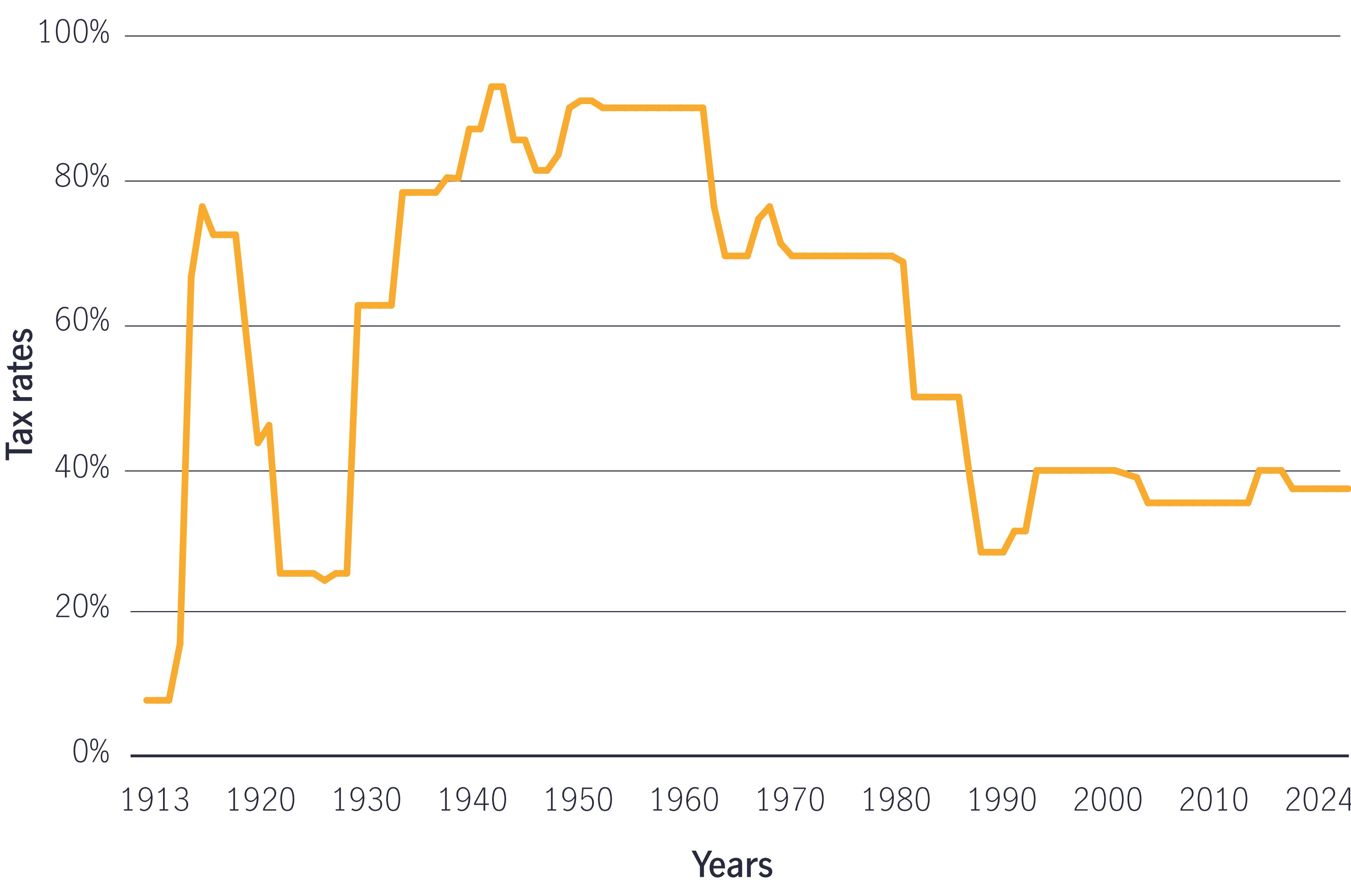
Why consider diversification for tax purposes:

- Taxes and tax rates change
- Tax-deferred growth is a good thing
- Taxes impact growth, distributions, benefits, and more

Will taxes be higher or lower during retirement?

The answer is unknown, but the expectation should be that taxes may increase not only at the beginning of retirement, but also might shift during the retirement years.

Highest marginal tax rate 1913–2024



Source: Tax rates shown are from the Tax Foundation. taxfoundation.org

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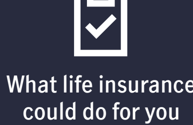
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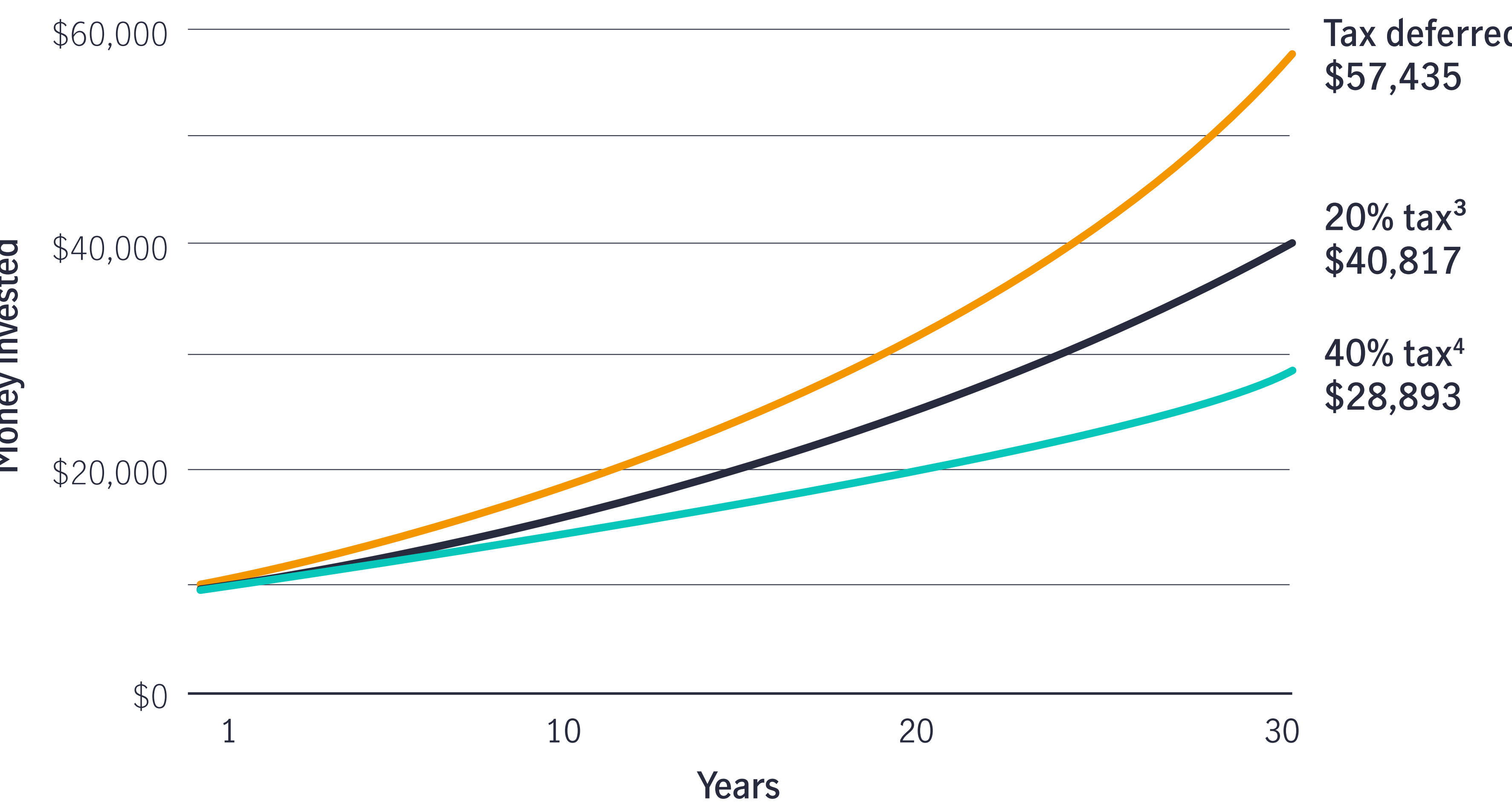
Tax-deferred growth is a good thing

No matter your age, income or financial goals, taxes can take a bite out of long-term savings. That's why it makes sense to take advantage of as many opportunities as possible to set aside money in tax-deferred accounts. Over long periods of time, tax deferral makes a difference in the amount of money you have in an account.

To understand the basics, let's look at a simple example. The accompanying chart shows a hypothetical $10,000 investment,[1] returning a steady 6% in three tax situations: tax deferred,[2] a 20% rate, and a 40% rate. As you can see, the tax-deferred account grows faster than the accounts that pay taxes each year.



1. This example is hypothetical and does not represent any particular investment or imply any guaranteed rate of return.
2. Taxes would be due upon withdrawal for the tax-deferred investment.
3. Assuming 15% federal and 5% state tax rates.
4. Assuming 35% federal and 5% state tax rates.

Taxes impact growth, distributions, benefits, and more

Will you have less to invest due to taxes? Let's consider the tax categories that may have the biggest impact on your financial planning — now and in the future:

		2024 tax rate
Top federal tax rates	Individuals with income over $609,350 ($731,200 for married filing jointly)	**37%** (ordinary and earned income)
	Individuals with income over $518,900 ($583,750 for married filing jointly)	**20%** (long-term capital gains & qualified dividends)
Top state tax rates	Depending on the state you live in or own/hold property, you may have additional income and capital gains tax liability	**Depends on the state**
Medicare payroll tax	This tax is an additional tax imposed on wage and self-employment income for individuals earning more than $200,000 ($250,000 for married filing jointly)	**0.9%**
Net investment income tax	This tax is imposed on the lesser of an individual's net investment income or modified adjusted gross income (MAGI) exceeding $200,000 ($250,000 for married filing jointly)	**3.8%**

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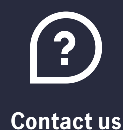
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Qualified plan limitations

For many individuals, a primary way to save for retirement is through the use of pre-tax deductions via qualified plans. Unfortunately, limitations on contributions to qualified plans and income restrictions may prevent high income earners from doing substantial planning in qualified plans and/or Roth IRAs:

		2024
Qualified plan contribution limits[5]	Maximum elective deferral to retirement plans (e.g., 401(k), 403(b), 457(b))	**$23,000[6]**
	Maximum IRA contribution limit	**$7,000[7]**
Qualified plan income limitations for contributions	Maximum compensation limit for employer	**$345,000**
	Roth IRA phase out (married filing jointly)	**$230,000 – $240,000**
	Roth IRA phase out (single, head of household, married filing separately)	**$146,000 – $161,000**

5. These are only a subset of qualified plan limitations.
6. An additional $7,500 catch-up is available for those ages 50+.
7. An additional $1,000 catch-up is available for those ages 50+.

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Additional tax considerations in retirement

Retirement does not necessarily mean that you will be in a lower tax bracket. During retirement, your income might even affect your Social Security benefits and Medicare premiums.

Social Security

	If your combined income* is	The percentage of your Social Security benefit that is subject to tax is up to
Single	less than $25,000	0%
	$25,000 – $34,000	50%
	$34,000 and over	85%
Married filing jointly	less than $32,000	0%
	$32,000 – $44,000	50%
	$44,000 and over	85%

*Combined income = your adjusted gross income + nontaxable interest + 50% of your Social Security benefits

Medicare monthly premiums 2024

	If your income is	Your premium is
Single	less than or equal to $103,000	$174.70
	greater than $103,000 and less than or equal to $129,000	$244.60
	greater than $129,000 and less than or equal to $161,000	$349.40
	greater than $161,000 and less than or equal to $193,000	$454.20
	greater than $193,000 and less than $500,000	$559.00
	greater than or equal to $500,000	$594.00
Married filing jointly	less than or equal to $206,000	$174.70
	greater than $206,000 and less than or equal to $258,000	$244.60
	greater than $258,000 and less than or equal to $322,000	$349.40
	greater than $322,000 and less than or equal to $386,000	$454.20
	greater than $386,000 and less than $750,000	$559.00
	greater than or equal to $750,000	$594.00
Married filing separately	less than or equal to $103,000	$174.70
	greater than $103,000 and less than $397,000	$559.00
	greater than or equal to $397,000	$594.00

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Pre-tax

What are they?

These are traditional 401(k)s, profit-sharing plans, IRAs, and other qualified plans.

How are they funded?

They are funded using pre-tax dollars.

How is the growth taxed?

These accounts grow tax deferred.

What about distributions?

Distributions are taxed as ordinary income. Distributions prior to age 59½ may result in a 10% penalty and Required Minimum Distributions (RMDs) have to be made starting at age 73/75.*

Benefits

Pre-tax contributions, and potential for employer contribution match.

Considerations

Limited access to accounts without penalty, and distributions are taxable. RMDs have to be made starting at age 73/75.*

Pre-tax contributions

Pre-tax

- 401(k)
- IRA

Withdrawals may be subject to 100% ordinary income tax

*SECURE 2.0 Act, signed into law on December 29, 2022, incrementally increases the age to 73 and then 75, depending on your birth year.

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Investment options, continued

Taxable

What are they?

These are mutual funds, stocks, bonds, real estate, and other investments.

How are they funded?

They are funded with money that has already been taxed (i.e., after-tax money).

How is the growth taxed?

Dividends and capital gains can be assessed depending on the type of investment.

What about distributions?

Capital gains may also be assessed on the growth upon distribution.

Benefits

There are no contribution limits, and accounts are fully accessible (i.e., no penalty if accessed prior to 59½).

Considerations

Investments may be subject to ongoing taxation, which will affect overall growth.

After-tax contributions

Taxable

- Mutual Funds
- Stocks
- Annuities
- Real Estate

Withdrawals may be subject to capital gains and even ordinary income tax

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Tax advantaged

What are they?

These are municipal bonds, Roth IRAs, and cash value life insurance.

How are they funded?

They are funded with after-tax money.

How is the growth taxed?

They grow tax deferred.

What about distributions?

Distributions are generally tax free, but Roth IRA distributions have to be made after 59½, otherwise there may be a 10% penalty.

Benefits

Accounts grow tax deferred and are generally distributed income tax-free

Considerations

Income limits may prevent you from contributing directly to a Roth IRA.

A 10% penalty may also apply when funds are withdrawn from a Roth IRA prior to age 59½.

After-tax contributions

Tax advantaged

- Muni Bonds
- Roth IRA
- Life Insurance

Withdrawals can be accessed income tax-free

Why tax diversification is important

Deciding where to invest today may affect retirement savings as it pertains to taxes. Diversifying the income tax treatment of investments can reduce income taxes in retirement.

Let's take a look at a $120,000 withdrawal

Non-diversified withdrawals

Let's assume Mary and John Smith withdrew $120,000 from their 401(k); they would be left with $78,000 (assuming a 35% tax rate).

100% ordinary income tax

401(k) plan
$120,000 withdrawal

Mutual fund
$0 withdrawal

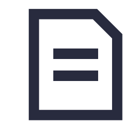
John Hancock life insurance policy
$0 withdrawal

$78,000 potential net income

Diversified withdrawals

Instead, if they took $40,000 from each of the three investment options — $40,000 from their 401(k), $40,000 from a mutual fund, and $40,000 from a John Hancock permanent life insurance policy — they could potentially receive net income of $100,000 (assuming a 35% income tax bracket and 15% in capital gains taxes).

100% ordinary income tax	Capital gains tax	Tax-free
401(k) plan **$40,000 withdrawal**	Mutual fund **$40,000 withdrawal**	John Hancock life insurance policy **$40,000 withdrawal**



$26,000 $34,000 $40,000 **$100,000 potential net income**

This is a hypothetical example for illustrative purposes only.

Advantages of diversifying with cash value life insurance

Regardless of when you decide to retire, a John Hancock life insurance policy can help protect your savings and provides the following tax advantages:

- **Retirement income from policy withdrawals and loans, which do not affect your:**
  - Income tax bracket
  - Medicare premiums
  - Capital gains
  - AGI or MAGI
  - Social Security
- **Income tax-free death benefit for your beneficiaries**
- **Tax-deferred growth potential**
- **No retirement contribution limits**
- **Potential to access cash prior to age 59½**

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What life insurance could do for you in retirement

Pre-tax and taxable accounts versus permanent life insurance

	Before age 59½	After age 59½	After age 65	After age 73/75
Pre-tax and taxable accounts	**Distributions from pre-tax investments** taxed as ordinary income and subject to 10% penalty	**Distributions from pre-tax and taxable investments** are subject to income tax and increase MAGI	**Distributions from pre-tax,** taxable, and tax-advantaged investments may cause you to pay more in Medicare premiums, which are affected by increases in your MAGI	Starting after age 73/75,* **you are required to take distributions ("RMDs") from your pre-tax retirement accounts**
Permanent life insurance	**Income tax-free distributions** without any penalties and tax-deferred growth of cash value	**Income tax-free distributions** that do not increase MAGI	**Distributions not considered as part of MAGI,** thus having no effect on Medicare premiums	**You are never required to take any distributions from your policy;** access to cash value is completely in your control

*The Secure Act changed the RMD age from 70½ to 72. SECURE 2.0 Act delayed the RMD further, to age 73 or 75, depending on your birth year.

For more information on using life insurance to help with tax diversification, please contact your financial professional.

Life Insurance can offer tax free distributions as long as the policy is structured properly. Modified endowment contracts (MECs) or lapsing or surrendering a contract may cause income taxation. Roth IRAs can offer tax free distributions, but if money is accessed prior to 59½, the distributions may be subject to income tax and a 10% penalty. There are also income limitations on Roth contributions. Pre-tax accounts, generally include 401(k)s and IRAs. Withdrawals prior to age 59½ may result in a 10% penalty and taxes.

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Loans and withdrawals will reduce the death benefit and the cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

Cash value available for loans and withdrawals may be more or less than originally invested. Withdrawals are available after the first policy year.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or licensed agents. Prospective purchasers should consult their tax professional for details. Insurance products are issued by: John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

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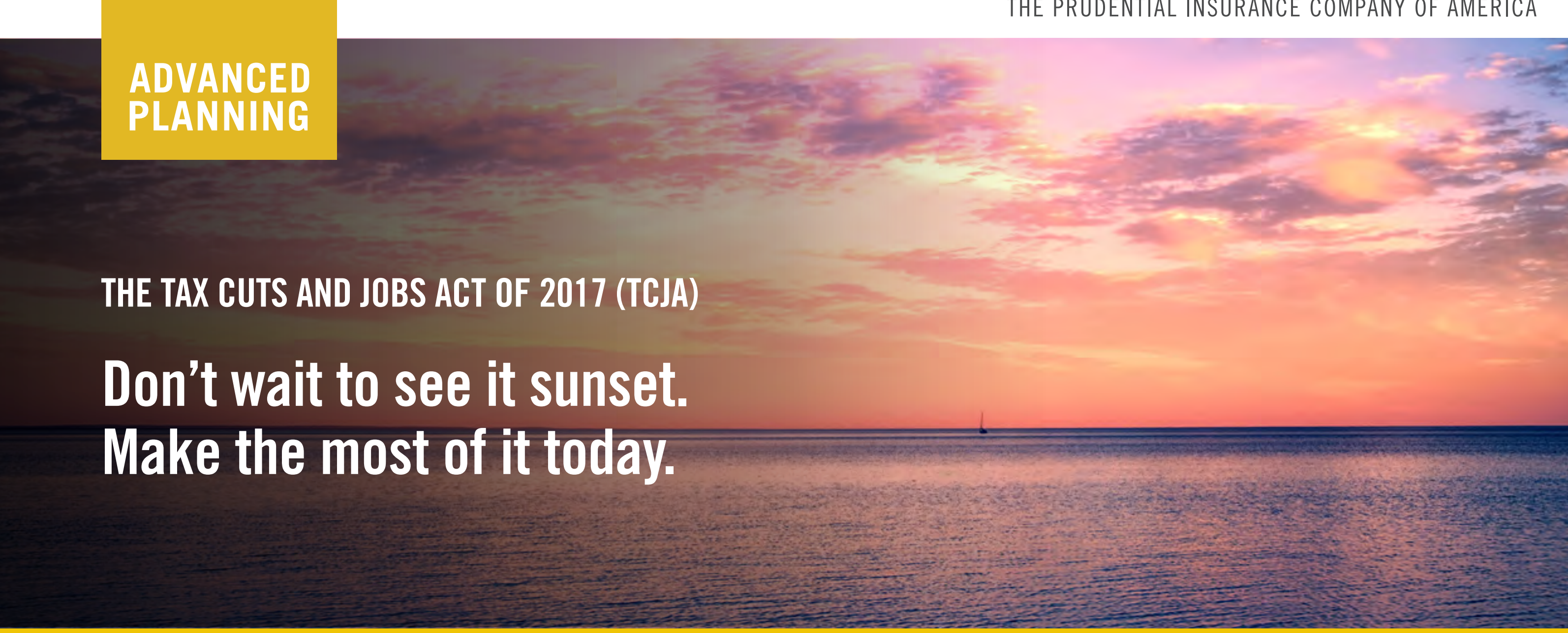

THE TAX CUTS AND JOBS ACT OF 2017 (TCJA)

Don't wait to see it sunset. Make the most of it today.

Many individuals and businesses have paid less in taxes since the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law in December 2017. If you're not familiar with the TCJA, it doubled the federal estate, gift, and generation-skipping transfer tax exemptions, lowered income tax rates, and more.

Most of these benefits are scheduled to sunset, or come to an end, on January 1, 2026. Here's what you should know:

The federal estate, gift, and generation-skipping transfer tax exemptions will be cut in half.

The TCJA doubled the estate, gift, and generation-skipping transfer tax basic exclusion amounts to:

- **$10 million per person, indexed for inflation. In 2023, the amount is equal to $12.92 million.**
- **$20 million per married couple, indexed for inflation. In 2023, the amount is equal to $25.84 million.**

On January 1, 2026, the exemption amount will revert to:

- **$5 million per person, adjusted for inflation, or**
- **$10 million per married couple, adjusted for inflation**

This planned decrease in the exemption caused concern over what would happen after 2026 if large gifts were made between 2018 and 2025. This left many people wondering:

- **Would their large gifts be clawed back once the exemption had been lowered?**
- **Would the planned gifts they had made during life be taxed unfavorably at death?**

IN GENERAL, THE ANSWERS TO THESE QUESTIONS ARE NO.

WHAT ABOUT PORTABILITY?

Portability is the availability of the unused exemption of the first spouse to die to be transferred to the surviving spouse.

If your spouse dies before 2026, the deceased spouse's unused exemption amount that is ported to the surviving spouse will not decrease because of the sunset.

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"Clawback" is the potential for gifts made during life to be taxed unfavorably at death. IRS regulations (Regs. Sec. 20.2010-1(c)) prevent most lifetime gifts that exceed the available basic exclusion amount at death from being "clawed back" and taxed as part of the donor's estate.

FOR EXAMPLE:

THIS YEAR, YOU DECIDE TO MAKE A $10 MILLION GIFT.

You pass away in 2026, after the sunset, and the exemption has decreased to $5 million (indexed for inflation = $6.5 million).

Your estate gets the benefit of an estate tax exemption amount of $10 million. However, you have no remaining exemption amount left because in your lifetime you used more than the exemption amount in your year of death ($6.5 million).

DO YOU THINK YOUR ESTATE IS TOO SMALL TO WORRY ABOUT THIS?

What will it be worth in 5, 10, or 20 years at a mere 4% growth rate?

Year	Today's Estate Value $3 million	Today's Estate Value $5 million	Today's Estate Value $8 million
0	$3,000,000	$5,000,000	$8,000,000
5	$3,649,959	$6,083,265	$9,733,223
10	$4,440,733	$7,401,221	$11,841,954
20	$6,573,369	$10,955,616	$17,528,985

Even if you don't have a federal estate tax problem today, when you factor in the potential growth of your estate, will you have a problem in 2026? Do you live in a state that has state death taxes as well?

This is a "use it or lose it" opportunity. If you don't use your increased exemption amounts that are available through the end of 2025, then you will have missed the opportunity to take advantage of these higher exemption amounts.

PLANNING OPPORTUNITY

Life insurance is a powerful tool to use in comprehensive estate plans. It can give your estate the liquidity it needs to enhance the wealth transferred to your loved ones. Do you have a plan already in place? Revisit it to ensure no opportunities have been overlooked.

CONSIDER THIS

The federal estate tax exemption increased by $860,000 from 2022 to 2023 due to the current state of inflation. If you're married, that increase was doubled! If you had previously used your existing exemption in full, you have almost an additional $1 million to use this year.

Federal income tax rates will go up.

The TCJA reduced the tax rate for certain brackets, including the top bracket. Additionally, the legislation increased income thresholds for higher tax brackets. When the TCJA ends, so do the lower tax rates.

Here's how the 2023 tax brackets would be impacted by the upcoming changes:

FILING SINGLE

Income	2023 Tax Rate	2026 Tax Rate
$0 – $11,000	10%	10%
$11,001 – $44,725	12%	**15%**
$44,726 – $95,375	22%	**25%**
$95,376 – $182,100	24%	**28%**
$182,101 – $231,250	32%	**33%**
$231,251 – $578,125	35%	35%
Above $578,125	37%	**39.6%**

MARRIED FILING JOINTLY

Income	2023 Tax Rate	2026 Tax Rate
$0 – $22,000	10%	10%
$22,001 – $89,450	12%	**15%**
$89,451 – $190,750	22%	**25%**
$190,751 – $364,200	24%	**28%**
$364,201 – $462,500	32%	**33%**
$462,501 – $693,750	35%	35%
Above $693,750	37%	**39.6%**

PLANNING OPPORTUNITY

Will you be taxed at a higher rate come 2026?

CONSIDER THIS

Tax-diversified strategies to help minimize your tax burden in the future.

Life insurance that builds cash value can help reduce overall exposure to taxes and round out a diversified tax strategy as part of your portfolio.

[1] Certificate of deposit/money market accounts.

[2] Does not include amounts invested in Roth 401(k)/403(b)/457(b).

[3] Non-qualified annuities purchased with after-tax dollars enjoy the same tax-deferred growth and ordinary income taxation as qualified annuities.

[4] Please note, generally only bonds issued by local and state governments are tax-exempt. May be subject to alternative minimum tax (AMT) and may impact taxation of Social Security benefits.

[5] Life insurance death benefits are generally income tax-free pursuant to U.S. IRC §101(a).Contract cash values can be accessed during the insured's life-time via loans and withdrawals. Loans are generally income tax-free as long as the policy remains in force. Withdrawals are tax-free to the extent of basis. Policies that are modified endowment contracts (MECs) receive less favorable tax treatment.

[6] Qualified distributions are income tax-free. Roth IRA distributions are qualified if the account has been open for 5 tax years, and the owner is age 59½, dies, is disabled, or is a first-time homebuyer ($10,000 lifetime limit). Roth 401(k) distributions are qualified if the plan participant has contributed to the account for 5 tax years, and is 59½ , dies, or is disabled.

There are other notable provisions sunsetting in 2026:

- The standard deduction will be reduced by almost half, adjusted for inflation.
- The $10,000 limit on state and local taxes (the SALT deduction) will be removed.
- The mortgage interest deduction (MID) will increase from $750,000 back to the $1 million limit. This deduction will also be expanded to include up to $100,000 in home equity debt.
- The annual deduction limit for cash contributions to public charities will decrease to 50% of adjusted gross income (AGI).
- Key for businesses and business owners! The Section 199A qualified business income deduction that allowed for a tax deduction of up to 20% of business income for pass-through entities will be eliminated.
- The increased alternative minimum tax (AMT) exemption and income exemption phase-out limits will revert to the pre-TCJA levels, increasing the amount of AMT taxpayers, once again.

What should you do now?

Make sure your strategy meets your needs and you're ready for 2026 and beyond. Use this checklist to get started.

EXPLORE TAX REDUCTION STRATEGIES.

- ❑ Gifting
- ❑ Trust planning
- ❑ Charitable planning

CONSIDER WHERE YOU WANT YOUR ESTATE TO GO TO WHEN YOU DIE.

- ❑ Your heirs — This isn't guaranteed unless it's planned appropriately.
- ❑ Charity — This must be purposely established.
- ❑ Taxes — Without a strategy, taxes are likely.

Talk about estate planning and tax planning strategies with your financial professional and advisors today.

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YOUR 1040: A TOOL TO HELP YOU MEET YOUR FINANCIAL NEEDS

ARE YOU PAYING MORE IN TAXES THAN YOU NEED TO?

Your Form 1040 individual income tax form can be a valuable tool to discover opportunities to meet your financial needs and help you make the most of your income and assets.

USE YOUR FORM 1040 TO IDENTIFY OPPORTUNITIES TO ENHANCE YOUR FINANCIAL WELLNESS

Within Form 1040, several lines can be especially helpful. For example:

- **Line 2b — Taxable Interest**
  By understanding the source of any taxable interest you currently have, your financial professional might be able to help you with a tax-deferred solution like life insurance or an annuity that may help reduce this amount and address any death benefit or retirement needs.

- **Line 4a and 4c — IRAs, Pensions, and Annuity Distributions**
  If you are taking distributions only because they are required and not because you need the income and you need life insurance, you may be able to use it to pass this tax-deferred asset to your heirs more efficiently.

- **Line 10, if you're a business owner — Qualified Business Income Deduction**
  If there isn't an entry on this line, why aren't you getting a deduction? Is your income too high? If yes, there may be ways to reduce your overall income to bring you below the threshold so you could take advantage of the deduction.

- **Schedule 2, Line 8 — Other Taxes**
  If you are paying additional Medicare Tax on your net investment income, exploring reallocating cash to life insurance may allow you to eliminate this tax entirely. This may be possible if you already own cash value life insurance or if you need to purchase a policy for death benefit protection.

STRATEGIES TO HELP MEET YOUR GOALS

When your goals include maximizing your legacy and/or saving on taxes, strategies using life insurance or an annuity can help provide protection and income. These can help to:

Financially protect your loved ones and business

Preserve your estate for your heirs

Provide a source of retirement income

Be a source of income during a chronic illness

Leave a legacy to your loved ones or a favorite charity

Pass tax-deferred, qualified accounts to your heirs in a tax-efficient manner

TAX SEASON IS AN IDEAL TIME TO SCHEDULE A MEETING

Aside from reviewing your 1040, tax season is a great time to review your overall financial strategy. Since this time coincides with any tax refund or even an annual bonus you may receive, it's a good time to discuss how to make the most of this money.

Although you can't rely on tax refunds and bonuses year after year to make life insurance premium payments or use toward other financial solutions, money you receive this year could provide the funds you need to comfortably make the initial purchase. From there, you can work with your financial professional to determine an appropriate way to continue making the necessary payments.

Contact your financial professional today to get started!

Prudential Financial and its financial professionals do not give legal or tax advice. Please consult your own professional tax and legal advisors before making any decisions.

There may be tax and other financial implications as a result of reallocating or liquidating assets within an investment portfolio. If contemplating such a strategy, it is important to understand that life insurance is a long-term strategy to meeting particular needs.

Annuities are long term, tax-deferred vehicles designed for retirement.

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Life Insurance as a Financial Tool
Individual Life Insurance

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

Consider pre-funding your retirement taxes

Qualified retirement plans can help you reduce taxes today since you can deduct your contributions on your tax return. And your taxes stay lower as your account grows since the annual growth is not taxable.

However, taxation in retirement can be one of your largest expenses. That's because your retirement distributions are taxable at ordinary income tax rates. And there are limitations on how much money you can put toward your qualified plan each year.

Funding an asset like life insurance is one option to pre-fund your future taxes in your working years.

LIFT up your retirement

Using Life Insurance as a Financial Tool (LIFT) may provide you the accessible cash you need down the road to cover the taxes on your retirement distributions.

Since life insurance has a different tax structure than qualified plans, it can be a valuable financial tool that can help you:

- Ensure your family is protected
- Protect the value of your assets
- Help fund emergencies
- Provide a tax-free "opportunity reserve" — a ready source of cash for life's opportunities by withdrawing policy cash values up to the amount you paid in
- Pre-fund your retirement taxes and lower your effective tax rate in retirement
- Efficiently pass your estate value to loved ones

Learn more

Is using Life Insurance as a Financial Tool (LIFT) right for you and your family? Contact your financial professional today to find out.

3 types of assets — how are yours taxed?

There are three main categories of assets based on how they're taxed: capital, retirement income and tax-advantaged assets.

	Capital assets	Retirement income assets	Tax-advantaged assets
Asset types	• Stocks and bonds • Real estate or other property • Business	• Qualified plans • Individual retirement accounts (IRAs) • Annuities	• Life insurance • Tax-advantaged municipal bonds • Roth IRAs
Tax-deductible contributions	No	Yes	No
Tax-deferred growth	Yes	Yes	Yes
Tax-free opportunity reserve	No (capital gains tax rate applies)	No (ordinary income taxes apply and possible penalties for early withdrawals)	Yes

If you have a need for life insurance, using the benefits of cash value life insurance to help fund your taxes in retirement could be a strategy that's right for you.

By using an asset that does not incur taxes on your distribution, you can use the funds to pay toward the taxes generated by your qualified plan — and potentially net the full qualified plan value, rather than a percentage based on the tax rate.

Here’s how it works

1

In addition to your retirement plan, you fund a life insurance policy to help protect your family in case you die.

2

Should you die before retirement, your heirs will receive the life insurance death benefit income tax-free, as well as your remaining qualified plan assets. (If the owner and insured are different, the death benefit will be paid upon the death of the insured.)

3

During retirement, for each distribution you receive from your retirement plan, take an amount equal to the tax on that distribution from your insurance policy’s cash value.

Policy cash values may be accessed tax-free through withdrawals up to the amount you paid in, or loans against the remaining cash value. These can be used to pay the tax on your distributions.

By using the cash value in your policy, you will have effectively paid the tax on your qualified plan distributions. And by buying life insurance now, you can begin funding those tax obligations and take advantage of potential tax-deferred growth in the policy over the years.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and these policies may contain restrictions, such as surrender periods. Policyholders could lose money in these products.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. You should consult your tax advisor when considering taking a policy loan or withdrawal.

Other than contribution limits or tax treatment, several other factors should be considered before purchasing any of these products. These include investment objectives, costs and expenses, liquidity, safety, fluctuation of principal or return, credit rates, rider availability, surrender periods and other product/investment characteristics.

This information is a general discussion of the relevant federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. Taxpayers should seek the advice of their own advisors regarding any tax and legal issues specific to their situation.

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Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Both companies are headquartered in St. Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

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Providing All the Tools for Your Success SM

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Founded in 1972 as a Transamerica branch office and later incorporated as Pinney Insurance Center, Inc., we provide a small local agency feel with the power of a major national firm.

Pinney has expanded into a national distributor with thousands of contracted agents and offices in California, Illinois, Maryland, North Carolina, Oklahoma, Pennsylvania, Texas, Washington, and Mississippi. Pinney represents over 100 life, annuity, disability, and long-term care companies with the intent of providing our clients & partners with the best possible product solutions at the lowest possible costs.

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