Tax Planning
SALES KIT

In this kit:
Producer marketing guides | Sample letters | Tax facts at-a-glance

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Tax impact: identify opportunities

How taxes affect your clients' retirement plans and how you can help protect their wealth

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The Form 1040 tax guide can help you:

Find areas where your clients could benefit from more tax-efficient strategies	Gain a more comprehensive picture of each client's financial situation	Provide value-added service to establish a stronger relationship with your clients

Lines 2a and 2b

Taxable and tax-exempt interest

Clients paying taxes on this income have options if they don't want or need it at the present time.

Lines 3b and 6

Dividends and capital gains from taxable mutual funds

Qualified plans, IRAs and annuities provide tax-deferred growth potential on all interest and dividends, enabling your clients' money to grow faster than it would with a taxable product.

Lines 4b and 4d

RMDs, pensions and other income

Consider alternative strategies for clients who may not need this income now. The amount under 4b could be from an RMD, and the income under 4d may be from a pension. Verify the sources and help your clients decide the best options for this income.

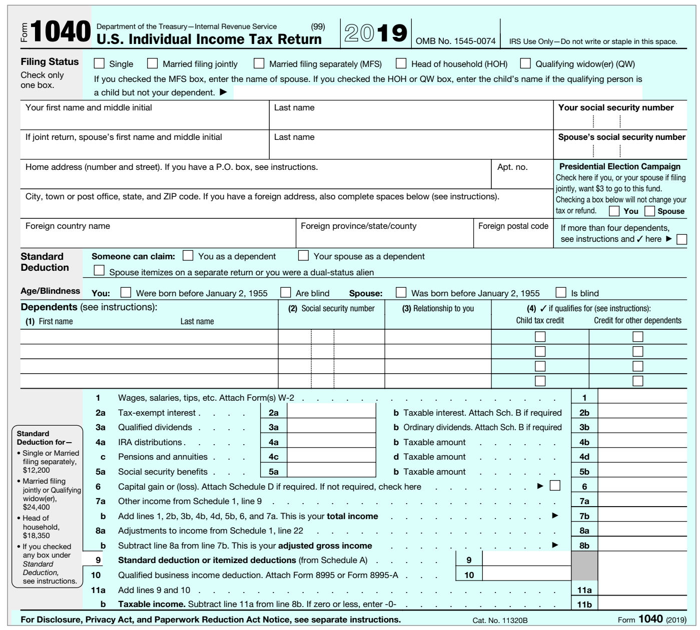
Line 5b

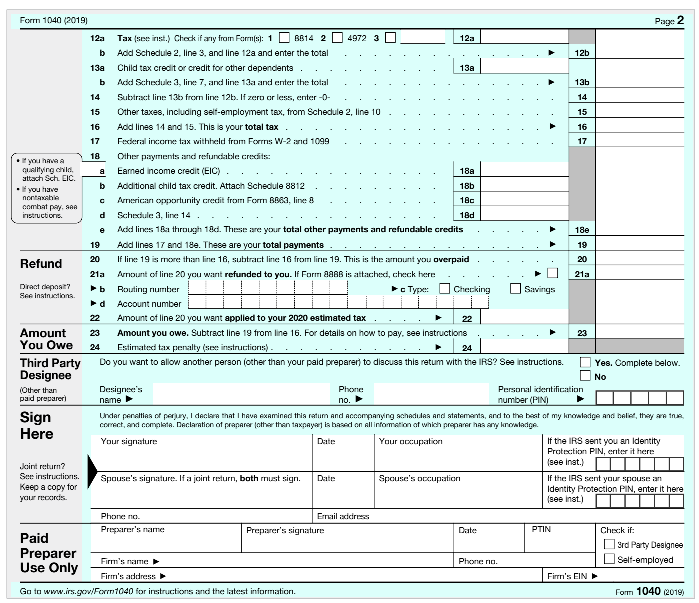
Reduce taxes on Social Security income

Annuity and variable life insurance earnings not withdrawn are not part of modified adjusted gross income, which is used to determine how much Social Security benefits are taxed. This is also true for the tax-excludable portion of an annuitized income stream.

IRAs and employer-sponsored retirement plans*

Talk with your clients about the new rules and whether they should have a review of the beneficiary designations on their existing qualified accounts or nonqualified annuities.


Form 1040 Department of the Treasury—Internal Revenue Service (99) U.S. Individual Income Tax Return 2019 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 widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW 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
Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Foreign country name | Foreign province/state/county | Foreign postal code | If more than four dependents, see instructions and ✓ here ▶
Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent
Spouse itemizes on a separate return or you were a dual-status alien
Age/Blindness You: Were born before January 2, 1955 Are blind Spouse: Was born before January 2, 1955 Is blind
Dependents (see instructions): (1) First name Last name (2) Social security number (3) Relationship to you (4) ✓ if qualifies for (see instructions): Child tax credit Credit for other dependents
Standard Deduction for— • Single or Married filing separately, $12,200 • Married filing jointly or Qualifying widow(er), $24,400 • Head of household, $18,350 • If you checked any box under Standard Deduction, see instructions.
1 Wages, salaries, tips, etc. Attach Form(s) W-2
2a Tax-exempt interest | b Taxable interest. Attach Sch. B if required
3a Qualified dividends | b Ordinary dividends. Attach Sch. B if required
4a IRA distributions | b Taxable amount
c Pensions and annuities | d Taxable amount
5a Social security benefits | b Taxable amount
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶
7a Other income from Schedule 1, line 9
b Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶
8a Adjustments to income from Schedule 1, line 22
b Subtract line 8a from line 7b. This is your **adjusted gross income** ▶
9 **Standard deduction or itemized deductions** (from Schedule A)
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A
11a Add lines 9 and 10
b **Taxable income.** Subtract line 11a from line 8b. If zero or less, enter -0-
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)


Form 1040 (2019) Page **2**
12a **Tax** (see inst.) Check if any from Form(s): 1 8814 2 4972 3
b Add Schedule 2, line 3, and line 12a and enter the total ▶
13a Child tax credit or credit for other dependents
b Add Schedule 3, line 7, and line 13a and enter the total ▶
14 Subtract line 13b from line 12b. If zero or less, enter -0-
15 Other taxes, including self-employment tax, from Schedule 2, line 10
16 Add lines 14 and 15. This is your **total tax** ▶
17 Federal income tax withheld from Forms W-2 and 1099
18 Other payments and refundable credits:
• If you have a qualifying child, attach Sch. EIC. • If you have nontaxable combat pay, see instructions.
a Earned income credit (EIC)
b Additional child tax credit. Attach Schedule 8812
c American opportunity credit from Form 8863, line 8
d Schedule 3, line 14
e Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶
19 Add lines 17 and 18e. These are your **total payments** ▶
Refund 20 If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**
21a Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶
Direct deposit? See instructions. ▶ b Routing number ▶ c Type: Checking Savings
▶ d Account number
22 Amount of line 20 you want **applied to your 2020 estimated tax** ▶
Amount You Owe 23 **Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶
24 Estimated tax penalty (see instructions) ▶
Third Party Designee (Other than paid preparer) Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. **Yes.** Complete below. **No**
Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶
Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Joint return? See instructions. Keep a copy for your records.
Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no. | Email address
Paid Preparer Use Only Preparer's name | Preparer's signature | Date | PTIN | Check if: 3rd Party Designee Self-employed
Firm's name ▶ | Phone no.
Firm's address ▶ | Firm's EIN ▶
Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

*The SECURE Act made several changes to IRAs and employer-sponsored retirement plans to make it easier for individuals to contribute. Talk with your clients to ensure they are taking full advantage of the new rules.

Work with your client's accountant and attorney to optimize tax, estate and income planning strategies.

Line 8b

IRA contributions

Clients with earned income may make a deductible contribution to an IRA, which can lower their adjusted gross income (AGI) and overall tax liability. With the passage of the SECURE Act, clients have additional options to make a deductible IRA contribution in 2020. Owning an annuity inside an IRA offers access to guarantees as well as professional management, ease of diversification, and asset allocation.

Line 9

Beneficiaries: qualified accounts and nonqualified annuities

If your client is the beneficiary of an IRA, employer-sponsored retirement plan, pension or nonqualified annuity, cashing it out as a lump sum might cause a large (and possibly unnecessary) tax liability. Make a point of discussing other more tax-efficient options with your clients.

Line 10

Qualified Business Income Deduction

This offers owners of pass-through business entities a 20% deduction on their qualified business income. A tax-deferred nonqualified annuity may allow a business owner to reduce income in order to stay below the threshold and qualify for the deduction.

Line 11b

Employer-sponsored retirement plans

A company-sponsored retirement plan can help reduce an individual's taxable wages and has higher contribution limits than an IRA, resulting in greater retirement savings. Refer to SECURE ACT on page 2.*

Line 18c

College savings

A Coverdell Education Savings Account (CESA) and 529 college savings plan (CSP) can provide tax-free treatment of growth and other tax advantages.

Line 21a

Investing a tax refund

Your clients can contribute all or a portion of their tax refund to a traditional IRA or Roth IRA, or purchase an annuity or life insurance policy.

Tips for talking taxes with your clients

Note that Schedules A and C may offer additional tax advantages for small-business owners and sole proprietors.

Consider how evolving tax regulations may impact your clients' estate plans and their ability to cover healthcare costs in the future.

Lincoln offers tax-efficient products and strategies that may help clients prepare for the impact of taxes.

There is no additional tax benefit for annuity contracts purchased in an IRA or other tax-qualified plan, since these are already afforded tax-deferred status. Thus, an annuity should only be purchased in an IRA or qualified plan if you value some other features of the annuity and are willing to incur any additional costs associated with the annuity to receive such benefits.

The value of partnering with Lincoln

For more than 115 years, Lincoln Financial Group has provided advice and solutions that empower Americans to take charge of their financial lives with confidence and optimism. We are committed to helping your clients plan for retirement, prepare for the unexpected, and protect their wealth.

Don't miss this opportunity to engage your clients on their tax concerns and help them protect their wealth.

For information and guidance on the solutions mentioned here, contact your Lincoln representative.

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Not guaranteed by any bank or savings association
May go down in value

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Uncover Opportunity: The Annual 1040 Review

Regularly Scheduled Reviews of Clients' Tax Returns May Help Them Manage Taxes Next Year

Scheduling an annual review of IRS Tax Form 1040 with clients may be an opportunity to confirm if their long-term retirement strategies are still on target. By taking a closer look, the form may also identify tax savings they may have missed in the past and planning opportunities for the future.

Consider asking your client these questions as you review the form:

- Do you feel you need to grow your retirement savings faster?
- How much guaranteed lifetime income do you think you'll need?
- Would you like to create a financial legacy for your loved ones?
- Would you be interested in exploring the advantages of moving tax-inefficient strategies into tax-efficient ones?

If the answer to one or more of these questions is yes, a deferred annuity could play an important role in meeting the client's long-term retirement strategy.

The Deferred Annuity Approach

Many people consider deferred annuities while saving for retirement because they can help:

- Enable money to grow at a faster rate through **tax deferral**: Because an annuity is a tax-deferred investment for individuals, earnings will compound without current income tax. Money grows faster because clients don't pay taxes on earnings until withdrawn or distributed.
- Provide guaranteed **lifetime income** no matter how long clients live: Annuity payout options include some that pay for life. It's an important benefit that only annuities provide.
- Preserve a legacy and help protect loved ones through a guaranteed **death benefit**: A guaranteed death benefit is a standard feature for some annuities. Many annuities may also offer enhanced death-benefit features for an additional cost.

The following chart outlines specific topics covered on Form 1040 that you may want to consider revisiting with your client.

Topic	Consideration	Opportunity with a Deferred Annuity
Filing Status	Do you need additional savings for retirement expenses?	**Tax deferral**
	Do you and your spouse want guaranteed income for life?	**Lifetime income**
	Do you want to provide a death benefit for your spouse?	**Death benefit**
Dependents	Do you want to provide a death benefit for your heirs?	**Death benefit**
Business Income	Do you have income from operating a business?	**Lifetime income, death benefit** You can make tax-deductible contributions to a retirement plan for your business [for example, SEP-IRA, SIMPLE IRA, and/or individual 401(k)].
Investment Income	Are you receiving taxable interest, dividends, and/or capital gains?	**Tax deferral**
	Are you subject to the Net Investment Income Tax (NIIT)?	**Tax deferral** You may consider placing some of your less tax-efficient assets into a deferred annuity and receive tax deferral while avoiding any unnecessary taxes.

Retirement Income	Are you receiving IRA distributions, pension and annuity income, and/or Social Security benefits?	**Lifetime income** • Make sure all 72(t)/(q) distributions taken before age $59^{1/2}$ are compliant. • If you are taking required minimum distributions (RMDs), continue to take these distrubitions to avoid the 50% excise penalty. Roth IRAs do not have RMD requirements, so a Roth IRA conversion may be something to consider. • Roth IRA distributions can be tax-free and would not impact Social Security benefits from being subject to income tax.
Retirement-Plan Contributions	Do you participate and contribute into a SEP-IRA, SIMPLE IRA, or qualified plans?	**Lifetime income, death benefit** Generally, your contributions are made on a pretax basis and are a way to save for retirement and reduce your current taxable income.
IRA Contributions	Are you (and/or your spouse) eligible for a deductible IRA contribution?	**Lifetime income, death benefit** To make a traditional IRA contribution, you must be younger than $70^{1/2}$ and have earned income. Your contributions may or may not be deductible depending on your participation in an employer-sponsored retirement plan and your modified adjusted gross income.
Adjusted Gross Income	Have you considered a Roth IRA conversion so you can have access to tax-free income in the future?	**Lifetime income, death benefit** Your conversion will be subject to income tax; however, future distributions will be tax-free when qualified distribution requirements are met (for example, you have owned a Roth IRA for five years and attained age $59^{1/2}$).
Tax Total	Would you like the potential to delay paying taxes on your retirement savings?	**Tax deferral** A deferred annuity can help you grow your assets and avoid paying any unnecessary taxes.

Refund	What do you intend to do with your refund?	Instead of spending the refund, consider opportunities to save and invest for the future.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income and death benefit options.

Guarantees, including optional benefits, are subject to the claims-paying ability and financial strength of the issuing insurance company and do not protect the value of the variable investment options, which are subject to market risk.

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e-Pocket TAX TABLES

2020 and 2021

Quick Links:

PACIFIC LIFE

18-48E

2020 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,875	$ 0	10%	$ 0
9,875	40,125	987.50	12%	9,875
40,125	85,525	4,617.50	22%	40,125
85,525	163,300	14,605.50	24%	85,525
163,300	207,350	33,271.50	32%	163,300
207,350	518,400	47,367.50	35%	207,350
518,400	----------	156,235.00	37%	518,400

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 19,750	$ 0	10%	$ 0
19,750	80,250	1,975.00	12%	19,750
80,250	171,050	9,235.00	22%	80,250
171,050	326,600	29,211.00	24%	171,050
326,600	414,700	66,543.00	32%	326,600
414,700	622,050	94,735.00	35%	414,700
622,050	----------	167,307.50	37%	622,050

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 14,100	$ 0	10%	$ 0
14,100	53,700	1,410.00	12%	14,100
53,700	85,500	6,162.00	22%	53,700
85,500	163,300	13,158.00	24%	85,500
163,300	207,350	31,830.00	32%	163,300
207,350	518,400	45,926.00	35%	207,350
518,400	----------	154,793.50	37%	518,400

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,875	$ 0	10%	$ 0
9,875	40,125	987.50	12%	9,875
40,125	85,525	4,617.50	22%	40,125
85,525	163,300	14,605.50	24%	85,525
163,300	207,350	33,271.50	32%	163,300
207,350	311,025	47,367.50	35%	207,350
311,025	----------	83,653.75	37%	311,025

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,600	$ 0	10%	$ 0
2,600	9,450	260	24%	2,600
9,450	12,950	1,904	35%	9,450
12,950	----------	3,129	37%	12,950

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$137,700	6.2%	$8,537.40
Self-Employed	$137,700	12.4%	$17,074.80

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)

2021 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,950	$ 0	10%	$ 0
9,950	40,525	995.00	12%	9,950
40,525	86,375	4,664.00	22%	40,525
86,375	164,925	14,751.00	24%	86,375
164,925	209,425	33,603.00	32%	164,925
209,425	523,600	47,843.00	35%	209,425
523,600	----------	157,804.25	37%	523,600

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 19,900	$ 0	10%	$ 0
19,900	81,050	1,990.00	12%	19,900
81,050	172,750	9,328.00	22%	81,050
172,750	329,850	29,502.00	24%	172,750
329,850	418,850	67,206.00	32%	329,850
418,850	628,300	95,686.00	35%	418,850
628,300	----------	168,993.50	37%	628,300

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 14,200	$ 0	10%	$ 0
14,200	54,200	1,420.00	12%	14,200
54,200	86,350	6,220.00	22%	54,200
86,350	164,900	13,293.00	24%	86,350
164,900	209,400	32,145.00	32%	164,900
209,400	523,600	46,385.00	35%	209,400
523,600	----------	156,355.00	37%	523,600

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,950	$ 0	10%	$ 0
9,950	40,525	995.00	12%	9,950
40,525	86,375	4,664.00	22%	40,525
86,375	164,925	14,751.00	24%	86,375
164,925	209,425	33,603.00	32%	164,925
209,425	314,150	47,843.00	35%	209,425
314,150	----------	84,496.75	37%	314,150

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,650	$ 0	10%	$ 0
2,650	9,550	265	24%	2,650
9,550	13,050	1,921	35%	9,550
13,050	----------	3,146	37%	13,050

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$142,800	6.2%	$8,853.60
Self-Employed	$142,800	12.4%	$17,707.20

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	2020 Exemption	2021 Exemption
Single or head of household	$72,900	$73,600
Married filing jointly	$113,400	$114,600
Married filing separately	$56,700	$57,300

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

2020 - Married filing jointly - $1,036,800   All other taxpayers - $518,400
2021 - Married filing jointly - $1,047,200   All other taxpayers - $523,600

AMT Income in Excess of Exemption 2020/2021	AMT Rate
First $197,900* / $199,900	26%
Above $197,900 / $199,900	28%

*$98,950 / $99,950 for married persons filing separately

KIDDIE TAX ON UNEARNED INCOME

	2020	2021	Income Tax Bracket
First	$1,100	$1,100	No Tax
Next	$1,100	$1,100	Child's Bracket
Amounts Over	$2,200	$2,200	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	2020	2021
Single	$12,400	$12,550
Married filing jointly	$24,800	$25,100
Head of household	$18,650	$18,800
Married filing separately	$12,400	$12,550

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 2020, the additional standard deduction amount is $1,300 if married or $1,650 if the person is unmarried and not a surviving spouse. For 2021, the additional standard deduction amount is $1,350 if married or $1,700 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

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)
2. Points on home mortgages
3. Business interest
4. Investment interest up to net investment income

Not Deductible

1. Auto loan interest
2. Credit card interest
3. Home equity loan interest
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.

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:

	2020	2021
Married filing jointly	$326,600	$329,800
Married filing separately	$163,300	$164,925
Single/Head of Household	$163,300	$164,900

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

2020 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)*	Head of Household	Estate or Trust
0%	$0 - $40,000	$0 - $80,000	$0 - $53,600	$0 - $2,650
15%	$40,001 - $441,450	$80,001 - $496,600	$53,601- $469,050	$2,651 - $13,150
20%	over $441,450	over $496,600	over $469,050	over $13,150

2021 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)*	Head of Household	Estate or Trust
0%	$0 - $40,400	$0 - $80,800	$0 - $54,100	$0 - $2,700
15%	$40,401 - $445,850	$80,801 - $501,600	$54,101- $473,750	$2,701 - $13,250
20%	over $445,850	over $501,600	over $473,750	over $13,250

*One half of these amounts in the case of married filing separately.

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).

DEDUCTIONS FOR CONTRIBUTIONS TO PUBLIC CHARITIES

Type of Property Contributed	Deemed Amount of Contribution	Percentage Limitation[1] 2020	2021
Cash	Actual dollar amount	100%	100%
Appreciated ordinary income property[2] or appreciated short-term capital gain property[3]	Donor's tax basis	50%	50%
Appreciated long-term capital gain property[4]			
(a) General rule	Fair market value	30%	30%
(b) Election made to reduce amount of contribution	Donor's tax basis	50%	50%
(b) Tangible personal property put to unrelated use by donee charity	Donor's tax basis	50%	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 - $6,000 ($7,000 for taxpayers age 50+) in 2020 and 2021. Note: For tax years beginning in 2020, the age 70½ 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 2020, the MAGI phase-out of the deduction for single taxpayers begins at $65,000 and the deduction is lost at $75,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $104,000 and the deduction is lost at $124,000.
- In 2021, the MAGI phase-out of the deduction for single taxpayers begins at $66,000 and the deduction is lost at $76,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $105,000 and the deduction is lost at $125,000.

INDIVIDUAL RETIREMENT ACCOUNTS (continued)

Roth IRA

Contribution Limit - $6,000 ($7,000 for taxpayers age 50+) in 2020 and 2021.

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 2020, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $124,000 and no contribution is permitted if MAGI is $139,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $196,000 and no contribution is permitted if MAGI is $206,000 or more.
- In 2021, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $125,000 and no contribution is permitted if MAGI is $140,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $198,000 and no contribution is permitted if MAGI is $208,000 or more.

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

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS

	2020	2021
Defined Contribution Plans - Annual additions limit for defined contribution plans [IRC Sec. 415(c)]	$57,000	$58,000
Defined Benefit Plans - Annual benefit limit for defined benefit plans [IRC Sec. 415(b)]	$230,000	$230,000
401(k) - Annual limit on deferrals [IRC Sec. 402(g)]	$19,500	$19,500
Plus: age 50+ catch-up	$6,500	$6,500
403(b) - Annual limit on deferrals [IRC Sec. 402(g)]	$19,500	$19,500
Plus: age 50+ catch-up	$6,500	$6,500
Salary Reduction SEPs (SARSEPs) - Annual limit on elective deferral [IRC Sec. 402(g)]	$19,500	$19,500
Plus: age 50+ catch-up	$6,500	$6,500
Annual Limit on Elective Deferrals to 457 Plans - [IRC Sec. 457(b)(2)(c)(1)]	$19,500	$19,500
Plus: age 50+ catch-up	$6,500	$6,500
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)]	$285,000	$290,000

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS (continued)

	2020	2021
Nondiscrimination Rules - For "highly compensated employees" [IRC Sec. 414(q)(1)]	$130,000	$130,000
Annual Compensation Subject to SEP Discrimination Rules [IRC Sec. 408(k)(3)(c)]	$285,000	$290,000
Compensation Threshold for SEP Participation - [IRC Sec. 408(k)(2)(c)]	$600	$650
Annual Limit on Elective Deferrals to SIMPLE Plans - [IRC Sec. 408(p)]	$13,500	$13,500
Plus: age 50+ catch-up	$3,000	$3,000

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

Starting in 2020, the required beginning date for RMDs is age 72 (up from age 70 1/2). Those who turned 70 1/2 in 2019 or earlier remain subject to the previous minimum distribution rules and must take an RMD in 2020 and beyond.

Note: 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.

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

ESTATE & GIFT TAXES

2020 and 2021 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	2020	2021
Top Estate Tax Rate	40%	40%
Estate Tax Applicable Exlusion Rate	$11,580,000	$11,700,000

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	2020	2021
Top Gift Tax Rate	40%	40%
Annual Gift Tax Exclusion	$15,000 per donee	$15,000 per donee
Annual Gift Tax Exclusion for a Noncitizen Spouse	$157,000	$159,000
Lifetime Gift Tax Applicable Exclusion Amount	$11,580,000	$11,700,000

According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.

e-Pocket TAX TABLES

2020 and 2021

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EASY REFERENCE TAX GUIDE 2021

APRIL

2021 ESTATE AND GIFT TAX RATES

The top tax rate applicable to estates and living gifts will be subject to a maximum tax rate of 40%.

Estate Tax	Exclusion Amount	Federal Credit	Gift Tax Exclusion
2021	$11,700,000[1]	$4,625,800[1]	$$11,700,000[1]

States with Estate or Inheritance Taxes
CT, DC, DE, HI, IL, IA, KY, ME, MD, MA, MN, NE, NJ, NY, OR, PA, RI, VT, WA.

Other Estate and Gift Planning Items

	2021
Annual gift tax exclusion	$15,000
Annual gift tax exclusion for non-U.S. citizen spouses	$159,000
Generation-skipping tax (GST) exemption	$11,700,000[1]
IRC §6166 2% limit for deferred estate tax payments	$1,590,000
Special use valuation for qualified real property	$1,190,000

Prudential

PERSONAL TAX ITEMS

Standard Deductions	Annual	Add'l Age 65 or Older, or Blind
Married, Filing Jointly	$25,100	$1,350
Head of Household	$18,800	$1,700
Single / Married Filing Separately	$12,550	$1,700 (S) / $1,350 (MFS

Dependents—$1,100 or $350 plus earned income, if greater. Tax return is generally not required if income is less than the standard deduction.

Qual. Dividends and Long-Term Capital Gains >= 12 Month Holding Period		
Tax	**Single**	**Married Filing Jointly**
0%	$0 – $40,400	$0 – $80,800
15%	$40,401 – $445,850	$80,801 – $501,600
20%	above $445,850	above $501,600
Short-term capital gains at ordinary rates, less than 12 month holding period.		

ACA Surtax 3.8% on Net Investment Income: Single $200,000, MFJ $250,000

Alternative Minimum Tax (Flat Rate 26%)	Exemption	28% Above	Phaseout Begins
Single	$73,600	$199,900	$523,600
Married, Filing Jointly	$114,600	$199,900	$1,047,200
Married, Filing Separately	$57,300	$99,950	$523,600
Estates and Trusts	$25,700	$197,900	$85,650

Kiddie Tax[1] (more than $1,100 and less than $11,000)[4]	
Earned Income	Taxed according to unmarried taxpayers (brackets and rates)
Unearned Income	Taxed according to parent's personal brackets and rates
Child's tax is unaffected by tax situation of child's parents.	

Child Credit[1]	Credit	Refundable
Child less than age 17	$2,000	$1,400
Other dependents	$500	$0
MAGI phaseout: $400,000 (MFJ); $200,000 (Others).		

Earned Income Credit				
Qualifying Children	**None**	**One**	**Two**	**3 or More**
Earned Income	$7,100	$10,640	$14,950	$14,950
Maximum Credit	$543	$3,618	$5,980	$6,728
Begin Phaseout: Single	$8,880	$19,520	$19,520	$19,520
Begin Phaseout: Joint	$15,980	$25,470	$25,470	$25,470

Medicare Surtax—Modified AGI in 2019 was		Your Monthly	
Single	**Married**	**Part B Premium is**	**Part D IRMAA***
$88,000 or less	$176,000 or less	$148.50	$0
$88,001 – $111,000	$176,001 – $222,000	$207.90	$12.30
$111,001 – $138,000	$222,001 – $276,000	$297.00	$31.80
$138,001 – $165,000	$276,001 – $330,000	$386.10	$51.20
$165,001 – $500,000	$330,001 – $750,000	$475.20	$70.70
Over $500,000	Over $750,000	$504.90	$77.10

*Part D premium determined by vendor. IRMAA surcharge added to vendor premium.

Maximum Qualified LTC Premium Eligible for Deduction

Age	40 or less	41 – 50	51 – 60	61 – 70	Over 70
2021	$450	$850	$1,690	$4,520	$5,640

Qualified LTC contract per diem limit: $400.

Personal Tax Items Repealed or Changed[1]

- Personal exemptions and limitation on itemized deductions repealed.
- Medical expenses deductible above 10% AGI.
- State, local, real estate taxes limited to $10,000.
- "NEW" mortgage interest limited to $750,000, home equity loans excluded.
- Casualty losses only allowed for federal disaster areas.
- Theft losses, moving and miscellaneous expenses subject to 2% floor repealed.
- Re-characterization of Roth conversion repealed.
- 529 plans enhanced—up to $10,000 for elementary and secondary tuition.

INCOME TAX
2021

If Taxable Income Is:

Over	But Not Over	The Tax Is	Of the Amount Over
Married, Filing Jointly and Surviving Spouses			
$0	$19,900	+ 10%	$0
$19,900	$81,050	$1,990 + 12%	$19,900
$81,050	$172,750	$9,328 + 22%	$81,050
$172,750	$329,850	$29,502 + 24%	$172,750
$329,850	$418,850	$67,206 + 32%	$329,850
$418,850	$628,350	$95,686 + 35%	$418,850
$628,350	—	$168,993.50 + 37%	$628,350
Unmarried Individual			
$0	$9,950	+ 10%	$0
$9,950	$40,525	$995 + 12%	$9,950
$40,525	$86,375	$4,664 + 22%	$40,525
$86,375	$164,925	$14,751 + 24%	$86,375
$164,925	$209,425	$33,603 + 32%	$164,925
$209,425	$523,600	$47,843 + 35%	$209,425
$523,600	—	$157,804.25 + 37%	$523,600
Married Individual Filing Separately			
$0	$9,950	+ 10%	$0
$9,950	$40,525	$995 + 12%	$9,950
$40,525	$86,375	$4,664 + 22%	$40,525
$86,375	$164,925	$14,751 + 24%	$86,375
$164,925	$209,425	$33,603 + 32%	$164,925
$209,425	$314,150	$47,943 + 35%	$209,425
$314,150	—	$84,496.75 + 37%	$314,150
Head of Household			
$0	$14,200	+ 10%	$0
$14,200	$54,200	$1,420 + 12%	$14,200
$54,200	$86,350	$6,220 + 22%	$54,200
$86,350	$164,900	$13,293 + 24%	$86,350
$164,900	$209,400	$32,145 + 32%	$164,900
$209,400	$523,600	$46,385 + 35%	$209,400
$523,600	—	$156,355 + 37%	$523,600
Estates and Trusts (Maximum 20% long-term capital gain $13,250)			
$0	$2,650	+ 10%	$0
$2,650	$9,550	$265 + 24%	$2,650
$9,550	$13,050	$1,921 + 35%	$9,550
$13,050	—	$3,146 + 37%	$13,050

Corporations[1]

- Corporations are taxed at a flat 21%.
- No special personal service corporation rate.
- Corporate Alternative Minimum Tax repealed.
- Higher capital gain tax obsolete.
- Section 179 depreciation up to $1,050,000. Phaseout $2,620,000. SUV: $26,200.
- New temporary expensing for large companies.
- Like-kind exchanges limited to real property not held primarily for sale.
- Pass-through entity tax treatment—deductible amount is the lesser of:
  (a) 20% of the taxpayer's qualified business income, or
  (b) the greater of: (1) 50% of the W-2 wages, or (2) the sum of 25% of the W-2 wages and 2.5% of the unadjusted basis of all qualified property.
- Deduction phaseout for high earners in professional fields. $329,800 – $429,800 (MFJ); $164,900 – $214,900 (Others)
- Hedge fund carried interest holding period increased to 3 years.

EDUCATION INCENTIVE

Education Savings Accounts (Education IRAs) — Qualified withdrawals for K-12 expenses.

Qualified Tuition Programs (Section 529 plans)—Qualified distributions are tax-free and excluded from financial aid calculations. Expanded to include K-12 and can be rolled into 529 ABLE accounts for those with special needs.

Lifetime Learning Credit—Up to 20% of up to $10,000 tuition paid, calculated per taxpayer. MAGI phaseout range:

- Married filing jointly $119,000 – $139,000
- Single $59,000 – $69,000

American Opportunity Tax Credit—100% on the first $2,000 and 25% on the next $2,000 of qualified tuition and related expenses. Up to 40% is refundable. MAGI phaseout range:

- Married filing jointly $160,000 – $180,000
- Single $80,000 – $90,000

Exclusion of U.S. Savings Bond Income for Taxpayers Who Pay Qualified Higher Education Expenses

	MAGI Phaseouts
Married, Filing Jointly	$124,800 – $154,800
Others	$83,200 – $98,200

Student Loan Interest—Maximum Itemized Deduction $2,500

Married, Filing Jointly	$140,000 – $170,000
Others	$70,000 – $85,000

SOCIAL SECURITY

Base Amount of Modified AGI Causing Social Security Benefits to Be Taxable

	50% Taxable	85% Taxable
Married, Filing Jointly	$32,000	$44,000
Single	$25,000	$34,000

Maximum Earnings Before Social Security Benefits Are Reduced

	2021
If under full retirement age, lose $1 for every $2 earned	$18,960
In the year of retirement, lose $1 for every $3 earned in months prior to full retirement	$50,520
At full retirement age	**No Limit**

Maximum Compensation Subject to FICA Taxes

	2021
OASDI (Social Security) maximum	$142,800
HI (Medicare) maximum	No Limit

OASDI tax rate: 12.4% self-employed, 6.2% employees, 6.2% employers. HI tax rate: 2.9% self-employed, 1.45% employees, 1.45% employers.

ACA Medicare surtax: additional. 0.9% on total wages for household income over $250,000 married filing jointly, $125,000 married separately, and $200,000 for others.

[1]Personal, estate, and business pass-through tax changes all sunset 12/31/2025. Corporate changes are permanent.

[2]The SECURE Act amended the rules regarding Required Minimum Distributions. For taxpayers born before 7-1-1949, the Required Beginning Date is April 1 of the year following the year the taxpayer attains age 70½. For taxpayers born on or after 7-1-1949, the Required Beginning Date is April 1 of the year following the year the taxpayer attains age 72.

[3]As of 1/1/2020, taxpayers who have earned income will be able to contribute to a traditional IRA regardless of age. This will mirror the current rules for Roth IRA contributions.

[4]The budget legislation that includes the SECURE Act will repeal the Kiddie Tax on unearned income at Trust/Estate rates and return it to personal tax rates.

TRADITIONAL AND ROTH IRAS

Contribution Limits

	2021
Regular	$6,000
Catch-Up**	$1,000

**Only taxpayers age 50 and over are eligible to make catch-up contributions.

Roth Contribution Phaseout

MAGI phaseout range for contributions to Roth IRAs in 2021		
• Married filing jointly: $198,000 – $208,000	• Married filing separately: $0 – $10,000	• Single: $125,000 – $140,000

No annual income limit for determining ability to convert traditional IRA to Roth IRA.
10% Saver's Credit: $66,000 (MFJ); $33,000 (S, MFS); $49,500 (HOH).

Traditional IRA Deductibility Rules[3]

Filing Status	Covered by Employer's Retirement Plan?	Modified AGI 2021	2021 Deductibility
Single	No	Any amount	Full deduction
	Yes	$66,000 or less	Full deduction
		$66,001 – $75,999	Partial deduction
		$76,000 or more	No deduction
Married Filing Jointly	Neither Spouse Covered	Any amount	Full deduction
	Both Spouses Covered	$105,000 or less	Full deduction
		$105,001 – $124,999	Partial deduction
		$125,000 or more	No deduction
	One Spouse Covered for Covered Spouse	$105,000 or less	Full deduction
		$105,001 – $124,999	Partial deduction
		$125,000 or more	No deduction
	One Spouse Covered for Non-Covered Spouse	$198,000 or less	Full deduction
		$198,001 – $207,999	Partial deduction
		$208,000 or more	No deduction

QUALIFIED PLANS

	2021
Maximum elective deferral to retirement plans (e.g., 401(k), 403(b), and 457 plans, and SARSEPs)	$19,500
Maximum elective deferral to SIMPLE 401(k) plans	$13,500
Limit on annual additions to SEP plans	$58,000
Annual compensation threshold requiring SEP contribution	$600
Limit on annual additions to defined contribution plans	$58,000
Maximum annual compensation taken into account for contributions	$290,000
Annual benefit limit under defined benefit plans	$230,000
Threshold amount for definition of highly compensated employee	$130,000
Threshold amount for definition of key employee/officer in top-heavy plans	$185,000

Catch-Up Contribution Limits for Other Qualified Plan Types

	2021
401(k), 403(b), SARSEP, and 457 Plans	$6,500
SIMPLE Plans	$3,000

REQUIRED MINIMUM DISTRIBUTIONS[2]

Uniform Lifetime Table

Current Age	Distribution Period	Current Age	Distribution Period
72	25.6	94	9.1
73	24.7	95	8.6
74	23.8	96	8.1
75	22.9	97	7.6
76	22.0	98	7.1
77	21.2	99	6.7
78	20.3	100	6.3
79	19.5	101	5.9
80	18.7	102	5.5
81	17.9	103	5.2
82	17.1	104	4.9
83	16.3	105	4.5
84	15.5	106	4.2
85	14.8	107	3.9
86	14.1	108	3.7
87	13.4	109	3.4
88	12.7	110	3.1
89	12.0	111	2.9
90	11.4	112	2.6
91	10.8	113	2.4
92	10.2	114	2.1
93	9.6	115	1.9

Beginning January 1, 2022, new life expectancy tables updated to reflect current mortality experience will go into effect.

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[WO# 734502]

ADVANCED PLANNING

The Impact of State Estate and Inheritance Taxes on Clients' Estate Plans

ARE CLIENTS OVERLOOKING THIS POTENTIAL CHALLENGE?

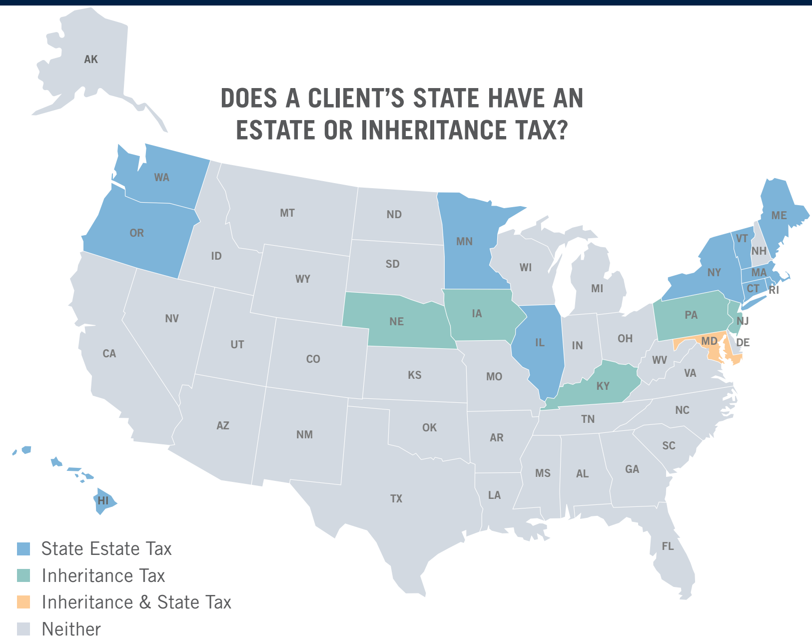
MANY DO. THEY SHOULDN'T.

Often clients may think that estate planning is only for the very wealthy. Even affluent clients might think they don't need an estate plan because of the high federal estate tax exemption. However, there are often two critical components to estate planning that clients are likely overlooking:

- **The federal estate tax exemption is subject to change** - With the passing of the Tax Cuts and Jobs Act of 2017, the federal estate tax exemption doubled to $11,580,000 in 2020. This increase is temporary, though, and the exemption is scheduled to revert to approximately $6.59 million in 2026*. Are clients who are aware of today's increased exemption thinking about what might happen when that drastic decrease occurs? Are they also taking the potential growth of their estates into consideration?
- **The impact of state estate taxes and inheritance taxes** - Even for clients for whom a decreased federal estate tax exemption will not be a concern, ask them to consider the impact state estate taxes and inheritance taxes might have on their wealth transfer plans. It may come as a surprise to them that currently there are 17 plus DC states that impose an estate or inheritance tax.

*Assuming 2% inflation

DOES A CLIENT'S STATE HAVE AN ESTATE OR INHERITANCE TAX?



State	State Estate Tax Rates	Current State Exemption	Inheritance Tax Rates (Children)	Inheritance Tax Rates (Other)
Connecticut	7.2% – 12%	$5,100,000		
DC	12% – 16%	$5,800,000		
Hawaii	10% – 15.7%	$5,490,000		
Illinois	0.8% – 13.8%	$4,000,000		
Iowa			0.0%	10% – 15%
Kentucky			0.0%	6% – 16%
Maine	10% – 12%	$5,800,000		
Maryland	0.8% – 16%	$5,000,000	0.0%	10%
Massachusetts	0.8% -16%	$1,000,000		
Minnesota	13% – 16%	$3,000,000		
Nebraska			1.0%	13% – 18%
New Jersey			0.0%	15% – 16%
New York	0.8% – 16%	$5,850,000		
Oregon	10% – 16%	$1,000,000		
Pennsylvania			4.5%	12% – 15%
Rhode Island	0.8% – 16%	$1,579,922		
Vermont	0.8% – 16%	$4,250,000		
Washington	10% – 20%	$2,193,000		

States without estate or inheritance taxes:
AL, AK, AZ, AR, CA, CO, DE, FL, GA, ID, IN, KS, LA, MI, MS, MO, MT, NV, NH, NM, NC, ND, OH, OK, SC, SD, TN, TX, VA, UT, WV, WI, WY

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1026113-00002-00 Ed. 02/2020

Prudential
Bring Your Challenges®

TWO TYPICAL ESTATE PLANNING STRATEGIES:

- **Strategy #1:** For smaller and simpler situations, pass all assets to the surviving spouse outright by the use of the unlimited marital deduction ("All to Spouse Will").

- **Strategy #2:** For more sizable estates, consider establishing a "B" trust at the death of the first spouse to pass the unused federal estate tax exemption amount of the first spouse to die to the "B" trust.

Structuring the estates either way postpones any federal estate taxes until the death of the second spouse.

Both arrangements are feasible options, but the use of the "B" trust keeps the appreciation between deaths from being included in the surviving spouse's estate.

Portability of the exemption of the first spouse to die, when available, should not be overlooked at the first death. And even when it is used at the federal level, it may not be available at the state level, resulting in clients having a different state planning need. This is illustrated in the following case study.

CASE STUDY

Meet Robert and Becky, a hypothetical married couple residing in New York:

- Robert, age 58, owns a small manufacturing company

- Becky, age 55, vice president of a local bank

- $10 million combined net worth

- Familiar with the federal estate exemption amount and don't believe estate taxes are a concern, as their combined estate is below $23.16 million in 2020 and would not be subject to federal estate taxes

NOT SO FAST

There are three potential problems:

1. The couple's current net worth is $10 million, but what will it be at death when estate taxes would be payable?

2. The current federal exemption is $23.16 million in 2020 per couple, but that is scheduled to be reduced to approximately $13.18 million in 2026 and $17.06 million in 20 years assuming 2% inflation.

3. Robert and Becky have ignored any state estate taxes that would be owed to the State of New York, which may be significant.

STAYING CLEAR OF THE CLIFF

As it turns out, Robert and Becky's state estate taxes would be significant. The New York estate tax threshold is $5.85 million in 2020 and will increase with inflation each year thereafter. For those with estates worth less than $5.85 million who die in 2020, no New York estate taxes are paid. New York also has a state estate tax "cliff" that must be considered. For estates that exceed the exemption amount by less than 5%, taxes are only owed on the amount over the threshold. Beyond the cliff, estates with a value of more than 105% of the annual exemption amount are then taxed on the entire estate value.

If we assume Robert and Becky's existing $10 million net worth increases at a conservative rate, in 20 years the estate's projected net worth would be an estimated $20 million.[1]

The following table below considers two different sets of scenarios of what could happen if Robert were to die unexpectedly today, in 2020:

- **Scenario #1:** Assumes an "all-to-spouse" will without portability of the federal exemption at the first death. Portability requires the timely filing of a federal estate tax return at the first spouse's death (IRS Form 706).
- **Scenario #2:** Assumes federal portability is elected at the death of the first spouse, and an amount equal to the New York exemption amount is transferred at the first death to a "B" trust.

TODAY'S ESTATE VALUE: $10,000,000
PROJECTED ESTATE GROWTH: $19,900,000 IN 20 YEARS AT 3.5%

Scenario #1: All to spouse (Becky) at Robert's death today using unlimited marital deduction and no other planning

Planning	Gross Estate	NY Exemption per Spouse[2]	NY Taxable Estate	NY Estate Tax[3]	Federal Exemption per Spouse[4]	Federal Taxable Estate	Federal Tax (at 40%)	Total Taxes (Federal + NY)	Total to Heirs
First Death Today	$10,000,000	$5,850,000	$0	$0	$11,580,000	$0	$0	$0	**N/A**
Second Death in Year 20	$19,900,000	$8,690,000 (NY exemption is LOST)	$19,900,000	$2,650,800	$8,690,000	$8,559,200 (Gross estate minus federal exemption and NY estate tax)	$3,423,680	$6,074,480 (Federal estate tax plus NY estate tax)	**$13,825,520 (Gross estate minus federal and NY estate taxes)**

NOTE: The New York exemption is lost at the first and second deaths since the unlimited marital deduction is used at the first death and the estate is worth more than 105% of the exemption at the second death. Portability of the federal estate tax exemption is available at first death if a federal estate tax return (IRS 706) if filed timely, but assumed not filed in scenario #1.

Scenario #2: Using New York exemption at Robert's death today to fund "B" Trust and portability (federal) of the remaining federal exemption[5]

Planning	Gross Estate	NY Exemption per Spouse[2]	NY Exemption Used to Fund "B" Trust	NY Taxable Estate	NY Estate Tax[3]	Federal Exemption per Spouse[4]	Federal Taxable Estate	Federal Tax (at 40%)	Total Taxes (Federal + NY)	Total to Heirs
First Death Today	$10,000,000	$5,850,000	$5,850,000	$5,850,000	$0	$11,580,000	$5,850,000	$0	$0	**N/A**
Second Death in Year 20	$8,260,000[6]	$8,690,000	"B" Trust Grows to: $11,640,000	$8,260,000	$0	$8,690,000 + $5,730,000 DSUE[7])	$0 (Gross estate minus NY estate tax minus federal exemption minus DSUE)	$0	$0	**$20,000,000 (NY taxable estate minus NY estate tax, plus NY exemption to fund "B" trust.)**

As this hypothetical case study shows, by having the necessary planning conversations now and putting a strategy in place, Robert and Becky can eliminate their entire tax bill!

A Note About Asset Title

Many married couples own their homes and other assets as joint tenants with rights of survivorship. This simple and effective legal structure ensures that at the death of the first spouse, assets titled this way automatically pass to the surviving spouse outside of the probate process. However, for those who wish to take advantage of their federal and/or state estate tax exemption by funding a "B" Trust at death, assets titled with their spouse as joint with rights of survivorship may pose a problem to the adequate funding of the "B" Trust. Put simply, in most instances for assets to pass to a "B" Trust on the death of the first spouse, those assets must be owned solely by the first spouse to die or as tenants in common with their spouse. Remember that its not enough for your clients to just include a "B" Trust in their estate planning documents, their assets need to be properly titled so that the Trust can be properly funded.

Prudential is Here to Help You Close Your Next Case

Both basic and advanced estate planning strategies can be used to help reduce the taxable estate and efficiently plan for any amounts that clients may owe down the road. We're here to help. Contact your Prudential financial professional or Advanced Planning at 800-800-2738, option 4, to review a client's particular situation.

[1] For Robert and Becky's hypothetical case scenario, the assumed growth rate is 3.5% rounded. Additionally, please note that the surviving spouse's life expectancy is 20 years and the amount subject to estate taxes could be higher than the current rate. However, for the purpose of this case study, today's amounts are used.

[2] For those dying on or after January 1, 2020, the New York state tax equals the federal estate tax exemption prior to the 2017 Tax Act ($5,000,000), adjusted for inflation. Today the New York exemption is $5,850,000 and is projected to be equal to the federal exemption beginning 1/1/2026.

[3] State estate tax is a deductible expense in determining the federal taxable estate. The New York tax rates are variable and range from 3% to 16%.

[4] Assuming sunset of the Federal Estate Tax Exemption and 2% cost of living adjustment, the 20-year projected federal and New York exemptions may approximate $8,690,000. Represents amount for each spouse, but the exemption at the first death is lost for New York and may or may not be lost for federal tax, depending on whether portability is properly elected by the timely filing of IRS Form 706. Portability is not available for New York.

[5] The money placed in the "B" Trust grows outside of the surviving spouse's taxable estate, but is available for the spouse if needed.

[6] Gross Estate at second death in Scenario #2 equals $10,000,000 (Gross Estate at first death) minus $5,850,000 (amount used to fund "B" Trust). The difference was then projected at the same growth rate as the estate (3.5% rounded).

[7] Deceased Spouse's Unused Exemption (DSUE) is equal to $5,730,000 ($11,580,000 - $5,850,000 NY Exemption).

The state law information contained in this document is as of January 1, 2020. Please be aware that state laws can change.

New York state tax will equal the federal estate tax exemption prior to the 2017 Tax Act, adjusted for inflation, for those who die on or after January 1, 2019.

The Connecticut estate tax exemption is scheduled to increase to $7,100,000 in 2021; and $9,100,000 in 2022; and to be equal to the federal exemption starting January 1, 2023.

Hawaii offers portability (i.e., Deceased Spouse Unused Exemption).

For those who die on or after January 1, 2019, the Maryland estate tax is capped at $5,000,000. As of January 1, 2019, Maryland offers portability (i.e., Deceased Spouse Unused Exemption).

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ADVANCED MATTERS

INTERNATIONAL MARRIAGE AND THE U.S. ESTATE TAX

Globalization isn't just a business catchphrase—it's transcended into family life. In the United States, 20% of families include a foreign born spouse.[1] Nearly five million Americans were married to someone born in another country as of 2010, double the number 50 years ago.[2]

International marriage brings some additional complications, but one complication that many couples may not be aware of is the different treatment under the U.S. gift and estate tax laws. Simply stated, there is no unlimited marital deduction for transfers to a non-citizen spouse.

Most planners are aware that there is not a U.S. estate tax on assets transferred to a surviving U.S. citizen spouse due to the unlimited marital estate tax deduction.[3] For this reason, many do not think that there is any particular need for estate planning for couples with less than $10.86 million in assets. However, this can be an expensive oversight and a missed opportunity for those couples where one or both spouses are not U.S. citizens. The non-citizen spouse does not receive the benefit of the estate tax marital deduction for U.S. estate taxes due on a deceased spouse's estate. Estate taxes are due after transfers of $5.43 million from a U.S. resident or citizen, unless they establish a qualified domestic trust (QDOT). Naturally, there are many more couples with more than $5.43 million than couples with $10.86 million.

Definition of a Qualified Domestic Trust (QDOT)

A QDOT provides deferral of estate taxes during the surviving spouse's life. The assets in the QDOT will be subject to estate taxes when distributed to meet an immediate, substantial financial hardship related to the health, maintenance, education or support of the survivor spouse or of a person whom the surviving spouse is legally obligated to support. Income from the QDOT assets may also be distributed to the survivor spouse without owing estate tax, but this distribution is subject to income tax by the spouse. Moreover, at the death of the surviving spouse, the deferral of estate tax provided by the QDOT ends. The remaining QDOT assets are subject to estate taxes at the rate and in the amount that would have otherwise been due as part of the first decedent spouse's estate. If the assets have appreciated in value, the ultimate estate tax due may be greater than if the full amount had been subjected to estate taxes at the time of the first spouse's death. The QDOT itself will also require a U.S. trustee—possibly an institutional trustee—necessitating annual trustee fees and legal fees to establish the trust.

Life insurance as a solution

Life insurance can be a better planning option than a QDOT. Life insurance is often paid for using tax exempt gifts. For example, spouses who are both US citizens can freely transfer assets between themselves without owing gift taxes. However, while there is no marital deduction for a gift to a non-citizen spouse, the annual exempt gift allowed is $147,000 per year, indexed for inflation.[4] This compares to an annual gift tax exempt amount of $14,000 to a non-spouse. This annual exempt gift can be used to fund a life insurance policy owned by the spouse or held in an irrevocable life insurance trust (ILIT). In many cases, the amount of life insurance that can be purchased with this amount will cover potential future U.S. estate taxes. The death benefit will be free of U.S. income taxes to the beneficiary as well as estate taxes in the decedent insured's estate, so long as the decedent did not hold

[1]Married-Couple Households by Nativity Status: 2011 ACSBR/11-16 American Community Survey Briefs, U.S. Census Bureau

[2]A Global Love Affair, by Neil Parmar, The Wall Street Journal 5/21/2013

[3]IRC § 2056(d)(1)

[4]IRC § 2523(i); Rev. Proc. 2014-61, sec. 3.35(2)

any incidents of ownership in the policy at death.[5] When life insurance death benefit is available to cover the deceased spouse's estate taxes, a QDOT may not be necessary to defer estate taxes and the assets and income of the deceased's estate can be used without restriction. The surviving spouse does not need to turn to a QDOT trustee for money.

This article addresses the basics of estate planning for married couples with diverse citizenships and U.S. estates. Many additional factors come into play when working through considerations for a specific couple, including estate tax and income tax treaties with the country or countries of citizenship and residence for the couple, laws of succession in the involved countries, and the overall estate planning goals of the couple. Transamerica's Advanced Marketing team is here for you as you help clients, and we can help coordinate with the client's legal and tax advisors to determine the requirements and optimal solutions for each case.

Contact Transamerica's Advanced Marketing team for more information.

[5] IRC § 2042(2); IRC § 101(a)(1)

ADVANCED MATTERS
INCOME TAX IMPLICATIONS OF LIVING BENEFITS

Over the past two decades, life insurance products have come to include benefits payable during the life of the insured as well as at death. More recently, hybrid life insurance with long term care (LTC) or chronic illness riders has proved popular in the marketplace, with sustained double-digit growth in product sales from 2009–14.[1] This early payout is called a living benefit (also known as accelerated death benefit, or ADB). Living benefits on a policy may be triggered when the insured experiences a qualifying chronic, critical or terminal illness. Exact requirements for living benefits depend on life expectancy and the terms of the life insurance contract. However, since the income tax-free receipt of life insurance proceeds is usually described as dependent on the death of the insured, the taxation of these living benefits has raised questions.

This document will examine some of the potential tax implications with regard to qualifying health events and policy ownership. In general:

- **Terminal illness or chronic illness/long term care benefits** should be income tax-free if the death benefit would have been income tax-free upon the death of the insured. These benefits would be taxable to the business for business-owned policies.
- **Critical illness benefits** should generally be income-tax free when premiums are paid by the individual insured rather than by an employer.

To Find Out More:

Terminal/chronic illness benefits are governed by Internal Revenue Code § 101(g) and are treated like an acceleration of the death benefit.

Critical illness benefits are treated like health insurance benefits under Internal Revenue Code § 104

Long term care benefits are governed by Internal Revenue Code § 7702B and sec. 101(g). To sell products with long term care benefits, producers must generally be licensed to sell long term care in the state where the contract is sold.

Taxation of Benefits Based on Policy Ownership

The table below compares some of the differences in taxation based on ownership of the life insurance policy:

	Insured owns policy	Employer owns policy
Terminal Illness	Not taxable as income[2]	Even if notice and consent requirements of IRC § 101(j) are followed, benefits paid to employer are taxable[3]; but may be deductible by employer and taxable to employee if paid to employee as reasonable compensation
Chronic Illness / LTC	Not taxable if less than per diem limit or actual long term care costs[4], depending on contract terms	Taxable as income to employer[3]; but may be deductible by employer and taxable to employee if paid to employee as reasonable compensation
Critical Illness	Not taxable as income when insured pays premium[5]	Most likely not taxable as income to employer[6]; but may be deductible by employer and then taxable to employee if paid to employee as reasonable compensation
Death Benefit	Not taxable as income[7]	Taxable unless IRC § 101(j) requirements met including notice and consent provided; for C-Corp may be subject to alternative minimum income tax

[1] LIMRA, *2014 Individual Life Combination Products Annual Review*

[2] IRC § 101(g)(1)(a)

[3] IRC § 101(g)(5)

[4] IRC § 101(g); IRC §7702B

[5] IRC sec. 104(a)(3)

[6] IRC § 104(a)(3), and Rugby Productions, Ltd. v. C.I.R., 100 T.C. 531 (1993)

[7] IRC § 101(a)

Third-Party Ownership

Living benefits are normally free from income tax even when the insured is not the owner. Some exceptions to the income tax free nature of living benefits when a third party is the owner of the contract are:

- business related policies. Terminal and chronic illness long term care benefits may not be exempted from income tax.
- if the policy has become subject to the transfer for value rule.[8] While critical illness benefits may fall outside the statutory transfer for value rule, they may also become taxable if the owner acquired the policy for money or in exchange for services or property after inception of the policy.[9]
- corporate owned policies. These may cause or increase the Alternative Minimum Tax (AMT) by including annual increases in cash values and death benefits in AMT tax.

MEC with a Long Term Care Rider

Generally, MEC's follow the LIFO (last in, first out) rules for taxation so that any loans or withdrawals from a MEC result in taxable gains being distributed first before the nontaxable return of basis. However, when LTC benefits are paid out of a MEC from a LTC rider, the benefits received by the insured for long term care are not taxable because they are considered LTC rider benefits rather than withdrawals from the MEC.

In addition, one can do a tax-free 1035 exchange from a MEC contract to a MEC contract with a LTC rider and thereafter receive benefits during lifetime for long term care without experiencing taxation of the benefits.

Lapsing a Policy After Receipt of Living Benefit

The general rules on surrender determine the tax consequences of allowing a policy to lapse, even after payment of an accelerated death benefit. When 100% of the policy face amount has been accelerated as a terminal illness benefit, the base policy and all riders will terminate.

When a policy lapse occurs after a chronic illness claim or long term care claim, there is no taxable income related to prior living benefit payments as they are considered a tax-free accelerated death benefit. Similarly, prior critical illness benefit payments are not taxable on a later lapse of the policy. *(NOTE: This differs from the tax treatment of the lapse of a policy with an outstanding loan in excess of basis in the policy. In that scenario, the outstanding loan balance is included as part of the amount realized, and the result is additional ordinary income to the policy owner.)*

Qualified Plans

If life insurance with accelerated death benefit riders is owned by a qualified plan, the plan documents should address living benefit riders.

- **Long term care/chronic illness and critical illness riders** may not be considered by the IRS to be permissible incidental benefits in a qualified plan.
- **Terminal illness riders** in a qualified plan require attention. To the extent that a life insurance policy inside a qualified plan has cash value when the participant is terminally ill, the distribution of living benefit payment from the plan could be viewed as a pro rata distribution of death benefit and cash value.

Insureds and plan trustees should consult with their tax advisors to evaluate the tax consequences of plan ownership of a life insurance policy with living benefit provisions.

[8] IRC § 101(a)(2). Please see our Advanced Matters "Policy Transfers" (OLA 2249) for more details on transfer for value.

[9] *Peoples Finance & Thrift Co. v. C.I.R.*, 12 T.C. 1052, 1055 (1949), *aff'd* 184 F.2d 836 (5th Cir. 1950)

ADVANCED MATTERS

Federal Income Tax Reporting

Transamerica reports the payment of living benefits when required by the IRS on forms 1099-LTC and 1099-R. Taxpayers must consult with their professional legal and tax advisors to determine if benefit payments are taxable or not and prepare their tax returns accordingly.

Summary

With the increasing popularity of hybrid life insurance products with chronic, critical, terminal and long term care benefits, it is important to be aware of the issues that may arise due to tax consequences of these living benefits. Policies owned by businesses, policies in qualified plans, and any other policies not owned by the insured all require careful review so that the value of these benefits is understood and realized.

OLA 2251 0915

TRANSAMERICA®

Pre-Approach Letter for Younger Clients with Children

For Use by a CPA or Tax Preparer

Date

«IndivContact_PrefAddrLine1»
«IndivContact_PrefAddrLine2»
«IndivContact_PrefAddrLine3»
«IndivContact_PrefAddrCity», «IndivContact_PrefAddrState»
«IndivContact_PrefAddrZipCode»

Dear «IndivContact_Name»:

After reviewing your individual tax return, I would like to offer you some suggestions you may want to consider that might help you with your overall financial plan.

Over the years as a tax professional, I've been committed to helping my clients with the preparation and planning of their taxes. However, many of my clients have often asked for my advice on other financial matters such as investments, retirement planning, and education funding.

To address these requests, I've begun to work with [Name of the Agent], a Financial Services Professional. Working in this capacity helps me give clients the most comprehensive service possible. With this in mind, I'd like you to consider the following:

Retirement Planning Now
On your tax return, I noticed that your adjusted gross income for the last tax year was [enter dollar amount]. If you are planning to retire at age 65, it's important to put a proper plan in place now to make sure you're doing all you can to reach the accumulation goals you have in mind. A financial review could help us identify your needs and answer any questions you may have.

Plans for College Savings
You have several children listed as exemptions and we should see if you are on track with proper college funding. There are a number of credits that might be available to you. There are options available to you such as formal education funding programs and life insurance. With life insurance, in addition to the needed death benefit, funds grow tax-deferred, and withdrawals for higher education expenses can be received without being subject to income taxes. Withdrawals and loans from life insurance contracts will reduce the face amount and increase the chance a policy may lapse. An effective plan may be developed to help you save for the formidable expenses of higher education. I'd be happy to give you more information about the options that are available.

Survivor Needs
If something unfortunate should happen to you, what would become of your family? No one wants to think about this, but it is necessary to evaluate how your family would fare if you were no longer there to provide for them. Would they have the resources to maintain their current

lifestyle? Could they finance the future you dreamed of together? Proper life insurance coverage will help ensure that your family is protected.

If you already have life insurance, it may be important to do a review to see if it is adequate and if the policy you own is appropriate for your near and long-term goals. In some cases, life insurance might be able to do double duty and offer you additional means to potentially accumulate cash value for retirement with potential tax benefits. I would be happy to provide you with a complimentary review to make sure you're on track.

Cash on Hand

Having savings in the bank for a rainy day is an important planning priority. Alternatively, having too much cash sitting around earning very low interest rates may not be the best plan. There are options besides passbook savings or CDs that could potentially make a big difference on your next tax return.[2] I'd be happy to provide you with more information.

Capital Gains/Losses

Sometimes your investments may be up, sometimes they may be down. If your assets have generated capital gains or losses for you, there are ways to offset them. I'd be happy to discuss strategies with you.

The decisions you make toward your financial well-being are important to me. I would like to schedule an appointment for us to talk in more detail about your goals and the tools that may help get you there. I will call you soon.

Sincerely,

«IndivContact_TA_Rep_1»

Please be advised that this letter is not intended as legal or tax advice. Accordingly, any tax information provided in this letter is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed and you should seek advice based on your particular circumstances from an independent tax advisor.

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[2] CDs and Passbook Savings Accounts are generally FDIC-insured up to $250,000.

For Use by a CPA or Tax Preparer

[Date]

[Address Line 1]
[Address Line 2]
[Address Line 3]

Dear [Name]:

Finally, the majority of your working years are behind you. As you approach retirement, I thought it might be helpful to talk with you about your financial plan.

Over the years as a tax professional, I've been committed to helping my clients plan and prepare their tax returns. However, many of my clients have often asked for my advice on other financial matters such as investments, retirement planning, and education funding.

To address these requests, I have begun to work with [Name], a Financial Professional. Working in this capacity helps me give my clients the most comprehensive service possible. In that regard, I'd like you to consider the following:

Retirement Planning Now
After reviewing your tax return, I noticed that you contributed $AMOUNT to pretax retirement programs. If you continue saving this much annually, realizing at least a 6% rate of return[1], will it be enough to achieve the retirement lifestyle you desire? It's important to periodically review your retirement plan to see if any modifications are necessary. I can offer you a complete complimentary financial review to help determine if you are on track to reach your goals.

As you know, for the tax year in which you turn age 70 ½, you are required to begin withdrawing a minimum amount from your retirement accounts and pay taxes on it. This is true whether you need the money or not. Some taxpayers need and spend the required minimum withdrawal. Others have income from other sources and simply re-invest or deposit the withdrawal into their savings account where the growth or interest is subject to income taxes. There are a variety of other options that may help protect this money from further income and, possible estate taxation. Call me so that we can estimate what you'll be required to withdraw.

[1] This hypothetical 6% rate of return is for illustrative purposes only and does not refer to any specific investment. Individual results vary, and past performance is never a guarantee of future returns.

Plans for College Savings [Optional if Financial Professional knows of grandchildren]

If you are currently helping your grandchildren prepare for college expenses, there are options available to you for formal education fund planning to include life insurance. With life insurance, in addition to the needed death benefit, funds grow tax-deferred, and withdrawals for higher education expenses can be received without being subject to income taxes. Withdrawals and loans from life insurance contracts will reduce the face amount and increase the chance a policy may lapse. An effective plan may be developed to help you save for the formidable expenses of higher education. I'd be happy to give you more information about the options that are available to you.

Estate Taxes

What estate taxes will be due when you pass away? For most people, it's less complicated and less expensive to address this issue before the fact, rather than after. Some people have been assuming the estate tax would eventually be repealed, but it has become increasingly clear that will not be the case. Do you have current will(s) and trust(s)? Perhaps it's time to review and possibly update them. It's also important to examine the ownership and beneficiaries for many assets. For example, who are the primary and contingent beneficiaries of your life insurance policies, retirement accounts, and annuities? I can provide you with a complimentary review of your estate planning documents and beneficiary designations.

Capital Gains/Losses

Sometimes your investments may be up: sometimes they may be down. If your assets have generated capital gains or losses, there are ways to offset them. I'd be happy to discuss strategies with you.

Helping you plan for your financial well-being is important to me. I would like to schedule an appointment for us to talk in more detail about your goals and the tools that may help get you there. I will call you soon.

Sincerely,

[Name]

Please be advised that this letter is not intended as legal or tax advice. Accordingly, any tax information provided in this letter is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed and you should seek advice based on your particular circumstances from an independent tax advisor.

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ADVANCED PLANNING

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.

Prudential
Bring Your Challenges®

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.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

Annuities and life insurance are issued by The Prudential Insurance Company of America, Pruco Life Insurance Company (except in NY), and Pruco Life Insurance Company of New Jersey (in NY). All are Prudential Financial companies located in Newark, NJ.

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Take The Tax Challenge

Use the following checklist to help determine how tax-diversified your investments are.

Find out how much you have vs. how much you'll keep.

Client's Name

"Tax Me Now"

NON-QUALIFIED

Mutual Funds $

CDs/MMAs[1] $

Real Estate $

Total $ 0.00

"Tax Me Later"

QUALIFIED

Traditional 401(k)[2] $

Traditional IRA/ SEP/SIMPLE $

Annuities[3] $

403(b)[2] $

457(b)[2] $

Total $ 0.00

"Don't Tax Me Again"

TAX-EXEMPT

Municipal Bonds & Bond Funds[4] $

Life Insurance[5] $

Roth IRA/401(k)[6] $

Total $ 0.00

PRINT SAVE CLEAR

Securities and Insurance Products:
Not Insured by FDIC or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

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[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 in force. 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 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 disabled.

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UNDERSTANDING TAXES

Answers to Seven Commonly Asked Questions

Planning Considerations for
Nonqualified Annuities and Other Investments

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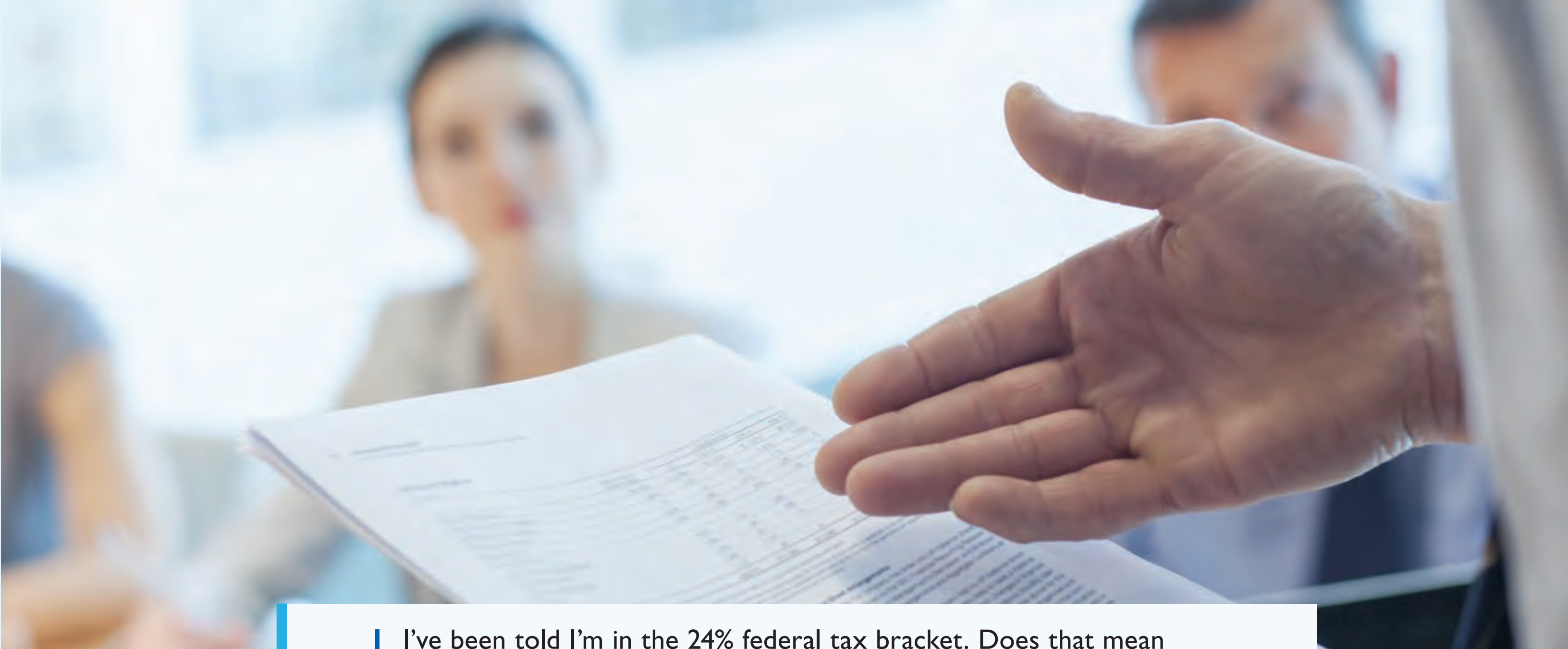
INCREASED TAX KNOWLEDGE MAY MEAN MORE MONEY IN YOUR POCKET

Often, a single, well-thought-out tax strategy can put you in a position to keep significantly more of your investment earnings. That's why it's important to know the tax implications of your investment decisions.

On the following pages are seven common questions and answers about taxes.



1 I've been told I'm in the 24% federal tax bracket. Does that mean all my income is taxed at 24%?

2 My tax professional uses the terms *marginal income-tax rate* and *effective income-tax rate*. What's the difference?

3 If I'm a high-income taxpayer, do I need to pay the Net Investment Income Tax?

4 Are all capital gains taxed at the same rate?

5 Are all distributions from my deferred annuity taxed equally?

6 If I take annuity distributions before age 59½, will I have to pay additional taxes?

7 What are the tax implications if my surviving spouse continues my annuity contract?

Your financial professional and/or tax advisor may address additional questions you have, as well as discuss the kind of tax strategies that may be appropriate for you.

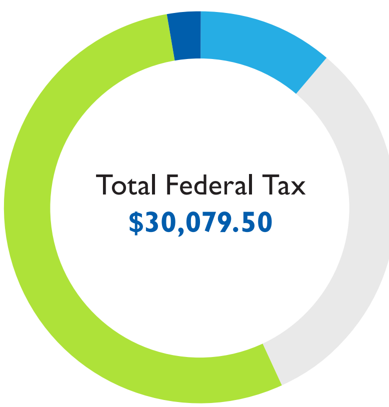
1 I've been told I'm in the 24% federal tax bracket. Does that mean all my income is taxed at 24%?

There is no single rate at which all your income is taxed. Your tax bracket reflects the highest rate at which you'll pay federal income taxes (also referred to as your marginal income-tax rate). However, some of your income will be taxed at lower rates. Here's how it works.

Hypothetical Example: Single Taxpayer with $150,000 of Taxable Income

Taxable Income (2020 Federal Tax Bracket)	**Is Taxed At** (Marginal Income Tax Rate)	**Calculation**	**Resulting in Federal Taxes of**
$0 to $9,875	10%	$9,875 x 0.10	$987.50
> $9,875 to $40,125	12%	($40,125 – $9,875) x 0.12	$3,630
> $40,125 to $85,525	22%	($85,525 – $40,125) x 0.22	$9,988
> $85,525 to $163,300	24%	($150,000 – $85,525) x 0.24	$15,474

Your situation may be different. Higher tax brackets, rates, and filing statuses may apply.

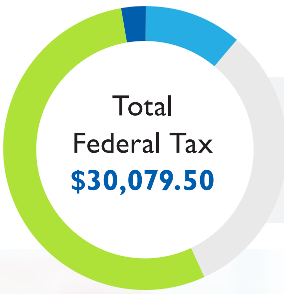


Planning Consideration—Be aware of the amount of your taxable income and federal tax bracket thresholds.

Consider deferring some income to keep yourself out of the next highest tax bracket.

2 My tax professional uses the terms *marginal income-tax rate* and *effective income-tax* rate. What's the difference?

The marginal income tax rate is simply the highest rate at which your last dollar earned will be taxed. On the other hand, the effective income-tax rate is the actual amount of taxes you paid on all the income you earned. Using the results from the example on the previous page, please see the explanation below.



÷ Taxable Income **$150,000** = Effective Income-Tax Rate **20.05%**

Marginal Income Tax Rate **24%**

Planning Consideration—Use your effective income-tax rate when doing tax planning.
Consider the effective income-tax rate when doing tax-planning exercises. The result will be closer to your actual taxes paid than using your tax bracket or marginal income-tax rate.

3 If I'm a high-income taxpayer, do I need to pay the Net Investment Income Tax?

The Net Investment Income Tax (NIIT) became effective January 1, 2013, to help fund the Affordable Care Act. This additional 3.8% federal tax can impact taxpayers who exceed the modified adjusted gross income (MAGI)[1] thresholds of $200,000 for single filers, and $250,000 for married couples filing jointly. The 3.8% NIIT applies to the lesser of net investment income or the excess of MAGI over the threshold amount. However, taxpayers may be able to avoid the NIIT by carefully managing their MAGI levels and net investment income levels.

Planning Considerations—**Consider strategies that lower MAGI and net investment income.**

- **Tax-deferred annuities:** If you do not need income now and would like for some of your assets to continue growing tax-deferred, a nonqualified annuity allows you to defer the growth. Because no income is being paid out, the deferred growth will not be subject to NIIT. However, if you start taking distributions, the growth will increase your MAGI and may be subject to NIIT.
- **Charitable giving:** Gifts made to charities may lower your overall MAGI.
- **Roth IRAs:** Qualified distributions from Roth IRAs are not subject to income tax, so it will not increase your MAGI.
- **Municipal bonds:** Income from these bonds is generally not included in MAGI.
- **Your workplace retirement plan:** Distributions from most 401(k)s, 403(b)s, and other employer retirement plans are not considered net investment income, but will increase your MAGI.

[1]MAGI, for purposes of the NIIT, is generally defined as adjusted gross income (AGI) for regular income-tax purposes increased by the foreign earned-income exclusion and adjusted for certain deductions related to foreign earned income. For an individual taxpayer who does not exclude foreign earned income, the regular AGI will also be the MAGI.

4 Are all capital gains taxed at the same rate?

There are two types of capital gains:

- Short-term: Capital gains on assets held for one year or less. These are taxed at ordinary income-tax rates.
- Long-term: Capital gains on assets held for more than one year. These are taxed at capital-gains rates, which are more favorable than ordinary income-tax rates.

For 2020, long-term capital gains are applied to maximum taxable income levels for a Single filer as follows:

If Your Taxable Income Is	Your Long-Term Capital Gains Tax Rate Is
Up to $40,000	0%
$40,000 to $441,450	15%
Over $441,450	20%

Planning Considerations

- **Hold capital-gains-producing assets for one year or more.** Taxes on your gains will be taxed as capital gains instead of ordinary income.
- **Consider the effect of mutual funds in your capital-gains planning.** Holding mutual funds can be an effective way to diversify your holdings and benefit from professional fund management. However, the funds' managers determine when assets are bought and sold. If they are bought and sold quickly, this may result in short-term gains that are taxable to you at ordinary income-tax rates.

5 Are all distributions from my deferred annuity taxed equally?

In a nonqualified deferred annuity (that is neither an IRA nor part of an employer-sponsored retirement plan), there are two types of distributions you can elect, resulting in different tax treatments: withdrawals or annuitization.

In the following hypothetical example, let's compare the two. Let's say Bob, age 62, decides to retire and use his deferred annuity for retirement income. The example shows what his first five years would look like if he chose withdrawals versus annuitization.

Withdrawals

If taking withdrawals, all gains, which are taxable, will be withdrawn first. Basis,[1] which is after-tax dollars invested in a deferred annuity, is not taxable and is withdrawn last.

- Annuity contract value when income begins: $200,000.
- Annuity contract basis: $187,000.
- Annuity contract gain: $13,000.
- For illustrative purposes, assumes no yearly gain or rate of return, and annual withdrawals are made at the end of each year.
- Withdrawals end when the contract value is depleted.

For annuities, keep in mind that a withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the death benefits, and also may reduce the value of any optional benefits.

	Year 1	Year 2	Year 3	Year 4	Year 5
Withdrawal Amount	$5,000	$5,000	$5,000	$5,000	$5,000
Taxable Portion on Gain	$5,000	$5,000	$3,000	$0	$0
Tax-Free Return of Basis	$0	$0	$2,000	$5,000	$5,000
Remaining Contract Value	$195,000	$190,000	$185,000	$180,000	$175,000
Remaining Contract Basis	$187,000	$187,000	$185,000	$180,000	$175,000

[1]Basis: Also referred to as principal. Distributions of principal are not taxable.

Annuitization

This series of guaranteed income payments is taxed on an exclusion-ratio basis, which means a portion of each payment is tax-exempt and represents a return of the initial investment rather than earnings or gains. Therefore, taxation is more evenly distributed throughout the years.

- Annuity payments may continue for your choice of:
  (1) Your entire life (as illustrated in this hypothetical example).
  (2) Your life plus the life of another person.
  (3) A fixed period, such as 5 or 10 years.
- Purchase payment amount: $200,000.
- Exclusion ratio: 76.8%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Income Payment Amount	$11,327	$11,327	$11,327	$11,327	$11,327
Taxable Portion	$2,628	$2,628	$2,628	$2,628	$2,628
Tax-Free Return of Basis	$8,699	$8,699	$8,699	$8,699	$8,699

Planning Considerations

- For withdrawals after all gains have been withdrawn, your subsequent withdrawals will not be taxable. This may be a good strategy if you prefer to pay more taxes now to receive nontaxable income later.
- Annuitization spreads out taxation. It may be a good strategy if you prefer taxation that's more evenly distributed throughout your retirement years.

Note: Taxes are not the only consideration when choosing how to take income from an annuity. Consult your financial and tax professionals before deciding on the income option that's right for your personal circumstances and needs.

6 If I take annuity distributions before age 59½, will I have to pay additional taxes?

Typically, the taxable portion of a distribution from a tax-deferred annuity that is taken prior to age 59½ will be subject to an additional 10% federal tax.

However, here are some exceptions to this rule.

Death of the Owner

After the death of a deferred annuity owner, distributions to beneficiaries are not subject to the additional 10% federal tax.

Disability

If an annuity owner becomes disabled, the additional 10% federal tax on distributions may not apply. Make sure the disability meets the IRS definition and Treasury regulations.

Substantially Equal Periodic Payments (SEPPs)

Distributions taken as SEPPs are free of the additional 10% federal tax. The payments must continue to age 59½ or for five years, whichever is longer.

1035 Exchange

The IRS allows you to fully exchange one deferred annuity contract for another without tax consequences, no matter your age. To qualify:

- The owner(s) and annuitant(s) of both contracts must be the same.
- The exchange must take place directly through the insurance companies. Cashing out one contract to purchase another may be a taxable event.

You also can perform a partial 1035 exchange, which means a portion of your annuity contract is exchanged for another contract. However, be aware that if you take distributions from either contract within 180 days of the exchange, the IRS may consider the exchange "disqualified" (that is, no longer tax-free).

7 What are the tax implications if my surviving spouse continues my annuity contract?

When a deferred annuity owner dies, his or her spouse, who is a joint owner and/or sole primary beneficiary, may choose to continue the annuity contract as its new sole owner. In that case, the additional 10% federal tax may apply to distributions made before the surviving spouse reaches age 59½.

Do You Have More Tax Questions?

The questions in this brochure represent only a sample of tax issues that may affect you. Talk to your financial and/or tax advisors about your circumstances and needs. Their knowledge and experience can be invaluable in helping you decide on tax strategies that are appropriate for helping you reach your long-term financial goals.

Talk to your financial professional to learn
about investment options and their tax implications,
or visit Annuities.PacificLife.com for more information.

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Providing All the Tools for Your Success[sm]

Pinney Insurance

Founded in 1972 as a Transamerica branch office and later incorporated as Pinney Insurance Center, Inc., we are headquartered in our own building in Roseville, California. We provide a small local agency feel with the power of a major national firm.

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