Tax Strategies
SALES KIT

In this kit:

1040 overlay guide | Tax strategy guides | Consumer brochures

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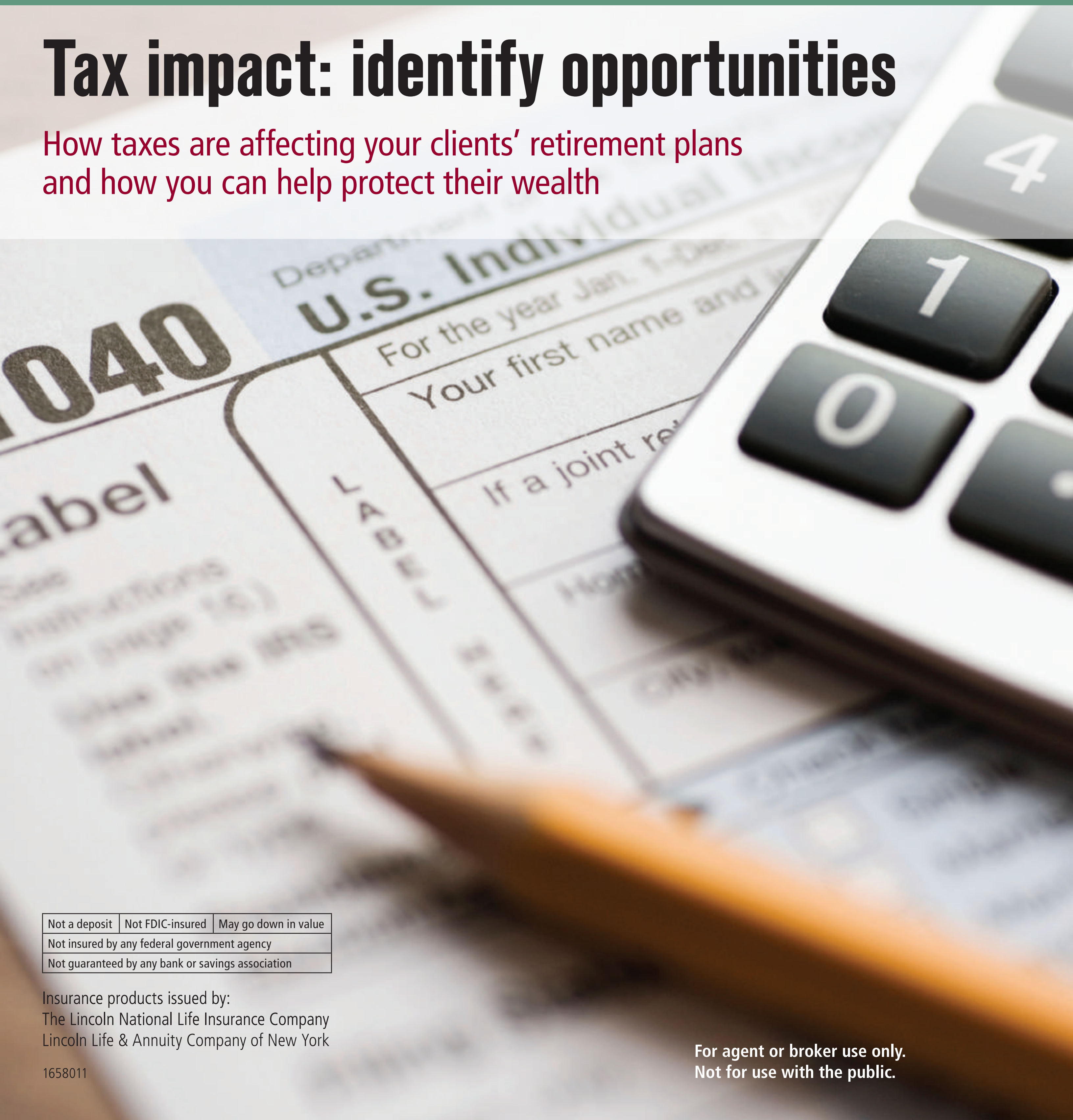
TAXES AFFECT EVERYONE

INCOME LATER

Tax impact: identify opportunities

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



Not a deposit	Not FDIC-insured	May go down in value
Not insured by any federal government agency		
Not guaranteed by any bank or savings association		

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The Form 1040 tax guide may 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 an added service to establish a more complete relationship with your clients

Lines 8a and 8b

Retirement savings

Clients paying taxes on retirement savings may be good candidates for an annuity.

Lines 9a and 13

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 15b and 16b

Planning for required minimum distributions (RMDs)

Consider alternative strategies for clients who may not rely upon their RMD income. Ask your Lincoln representative for more information on how these strategies may help clients maximize the assets they leave behind.

Line 20b

Reduce taxes on Social Security income

Annuity and variable life insurance earnings that are not withdrawn are not part of modified adjusted gross income, which is used to determine how much Social Security benefits are taxed.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.

Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** 2017 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial | Last name | **Your social security number**

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

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | ▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). | **Presidential Election Campaign**

Foreign country name | Foreign province/state/county | Foreign postal code | 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

Filing Status — Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions
6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**
c **Dependents:** (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐
d Total number of exemptions claimed
Boxes checked on 6a and 6b; No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions); Dependents on 6c not entered above; Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7
8a	**Taxable** interest. Attach Schedule B if required	8a
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b	
9a	Ordinary dividends. Attach Schedule B if required	9a
b	Qualified dividends — 9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10
11	Alimony received	11
12	Business income or (loss). Attach Schedule C or C-EZ	12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13
14	Other gains or (losses). Attach Form 4797	14
15a	IRA distributions 15a — b Taxable amount	15b
16a	Pensions and annuities 16a — b Taxable amount	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17
18	Farm income or (loss). Attach Schedule F	18
19	Unemployment compensation	19
20a	Social security benefits 20a — b Taxable amount	20b
21	Other income. List type and amount	21
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22

Adjusted Gross Income

23	Educator expenses	23
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24
25	Health savings account deduction. Attach Form 8889	25
26	Moving expenses. Attach Form 3903	26
27	Deductible part of self-employment tax. Attach Schedule SE	27
28	Self-employed SEP, SIMPLE, and qualified plans	28
29	Self-employed health insurance deduction	29
30	Penalty on early withdrawal of savings	30
31a	Alimony paid b Recipient's SSN ▶	31a
32	IRA deduction	32
33	Student loan interest deduction	33
34	Reserved for future use	34
35	Domestic production activities deduction. Attach Form 8903	35
36	Add lines 23 through 35	36
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2017)

Line 32

IRA contributions

Owning an annuity inside an IRA offers your clients additional access to certain guarantees as well as professional management, ease of diversification, and asset allocation.*

*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.

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

Form 1040 (2017) Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38
	39a	Check if: { ☐ **You** were born before January 2, 1953, ☐ Blind. / ☐ **Spouse** was born before January 2, 1953, ☐ Blind. } **Total boxes checked** ▶ 39a	
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐	
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350 Married filing jointly or Qualifying widow(er), $12,700 Head of household, $9,350	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40
	41	Subtract line 40 from line 38	41
	42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43
	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44
	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45
	46	Excess advance premium tax credit repayment. Attach Form 8962	46
	47	Add lines 44, 45, and 46 ▶	47
	48	Foreign tax credit. Attach Form 1116 if required — 48	
	49	Credit for child and dependent care expenses. Attach Form 2441 — 49	
	50	Education credits from Form 8863, line 19 — 50	
	51	Retirement savings contributions credit. Attach Form 8880 — 51	
	52	Child tax credit. Attach Schedule 8812, if required — 52	
	53	Residential energy credit. Attach Form 5695 — 53	
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ — 54	
	55	Add lines 48 through 54. These are your **total credits**	55
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56
Other Taxes	57	Self-employment tax. Attach Schedule SE	57
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	58
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59
	60a	Household employment taxes from Schedule H	60a
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62
	63	Add lines 56 through 62. This is your **total tax** ▶	63
Payments	64	Federal income tax withheld from Forms W-2 and 1099 — 64	
If you have a qualifying child, attach Schedule EIC.	65	2017 estimated tax payments and amount applied from 2016 return — 65	
	66a	**Earned income credit (EIC)** — 66a	
	b	Nontaxable combat pay election — 66b	
	67	Additional child tax credit. Attach Schedule 8812 — 67	
	68	American opportunity credit from Form 8863, line 8 — 68	
	69	Net premium tax credit. Attach Form 8962 — 69	
	70	Amount paid with request for extension to file — 70	
	71	Excess social security and tier 1 RRTA tax withheld — 71	
	72	Credit for federal tax on fuels. Attach Form 4136 — 72	
	73	Credits from Form: **a** ☐ 2439 **b** ☐ Reserved **c** ☐ 8885 **d** ☐ — 73	
	74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶	74
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75
	76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	76a
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings	
	▶ d	Account number	
	77	Amount of line 75 you want **applied to your 2018 estimated tax** ▶ 77	
Amount You Owe	78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78
	79	Estimated tax penalty (see instructions) — 79	

Third Party Designee — Do you want to allow another person 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 accurately list all amounts and sources of income I received during the tax year. 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 | Daytime phone number
Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only — Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN
Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2017)

Line 40

IRA rollover

If your client is the beneficiary of an IRA, cashing it out will result in taxes on the entire inheritance. Consider them as candidates for a tax-qualified annuity.

Line 43

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.

Line 50

College savings

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

Line 76a

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. Ask your Lincoln representative for more information.

Put Lincoln Wealth Protection Expertise to work for you. Contact your Lincoln Financial representative or call 855-831-7067 for further information.

The value of partnering with Lincoln Financial Group

Lincoln Financial Group delivers sophisticated strategies and products for the creation, protection, and enjoyment of wealth. We are committed to helping Americans plan for retirement, prepare for the unexpected, and protect their wealth from five key financial challenges: taxes, long-term care expenses, longevity, inflation, and market risk.

Rely on Lincoln for the knowledge and experience to help you address these challenges. Lincoln Wealth Protection Expertise combines state-of-the-art products, seasoned wholesalers and specialists, and powerful visualization tools to assist you in protecting client wealth and planning financial outcomes.

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

To get information and guidance about the solutions mentioned here, contact your representative.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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LCN-1658011-120616
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Form **1040** Department of the Treasury—Internal Revenue Service (99)

U.S. Individual Income Tax Return 2017 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial | Last name | Your social security number

If a joint return, spouse's first name and initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

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

Foreign country name | Foreign province/state/county | Foreign postal code

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Boxes checked on 6a and 6b
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶

check here ▶ ☐

d Total number of exemptions claimed

Lines 8a and 8b: Consider ways to defer taxes on some of the money you're saving for retirement. When comparing taxable vs. tax-advantaged returns, be sure to take your marginal tax rate (the rate on the last dollar of income earned) into account. A higher marginal tax rate means more taxes, making tax-advantaged investing even more important.

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 — 7

8a — 8b

9a — 9b

Lines 9a and 13: Reduce the taxes you pay on dividends and capital gains from taxable mutual funds by moving to tax-efficient funds or holding retirement savings inside a qualified plan, IRA or annuity.

10 ...ome taxes — 10

11

12 Business income or (loss). Attach Schedule C or C-EZ — 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ — 13

14

Lines 15b and 16b: If you do not need the income from the IRS-imposed required minimum distributions (RMDs), it might make sense to consider distribution planning.

15b

16b

17 ...Schedule E — 17

18 Farm income or (loss). Attach Schedule F — 18

19

20a — 20b

Line 20b: Are you paying taxes on Social Security benefits? You may be able to reposition some of your assets to help reduce the tax liability on your Social Security income.

21

22

Adjusted Gross Income

23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ — 24

25

26

27

28

29

30

31a

Line 32: Depending on your age, income, and tax filing status, you may be able to take a full or partial deduction for contributions you make to an IRA until April 18, 2017. If you are over age 50, you are permitted to make an additional "catch-up" contribution of $1,000.

32 IRA deduction — 32

33 Student loan interest deduction — 33

34 Reserved for future use — 34

35 Domestic production activities deduction. Attach Form 8903 — 35

36 Add lines 23 through 35 — 36

37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ — 37

1658064

Line 40: If you are the beneficiary of an IRA, cashing it out may create a significant tax liability. If you are the surviving spouse, rolling over the IRA to your name may be more tax efficient. Also IRA beneficiaries may be able to take an itemized deduction equal to the estate tax paid on the IRA.

Line 43: Participating in a company-sponsored retirement plan may help reduce your taxable income.

Line 50: You can save for your children's education and receive potential tax benefits. A Coverdell Education Savings Account and a 529 college savings plan provide tax-deferred growth as well as other potential tax advantages.

Line 64: Consult a tax professional to determine the correct amount to withhold based on your total projected income, number of dependents, and other qualifying deductions.

Line 76a: Consider supplementing your retirement savings by contributing all or a portion of your refund to a traditional IRA or a Roth IRA, or by purchasing an annuity or life insurance policy.

Line 79: Prevent a possible tax penalty by recalculating your W-4 or estimated tax payment.

		38
	▶ 39a	
	ere ▶ 39b	
	gin)	40
		41
42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42
43	**Taxabl**	43
44	Tax (se	44
45	**Altern**	45
46	Excess	46
47	Add lines 44, 45, and 46 ▶	47
48	Foreign tax credit. Attach Form 1116 if required — 48	
49	— 49	
50	— 50	
51	— 51	
52	— 52	
53	— 53	
54	— 54	
		55
	nter -0- ▶	56
57	Self-employment tax. Attach Schedule SE	57
58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59
60a	Household employment taxes from Schedule H	60a
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b
61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61
	nstructions; enter code(s)	62
	▶	63
	— 64	
	return — 65	
	— 66a	
67	Additional child tax credit. Attach Schedule 8812 — 67	
68	American oppo	
69	Net premium ta	
70	Amount paid wi	
71	Excess social se	
72	Credit for federa	
73	Credits from Form: a	
74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶	74
75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75
76a	Amo … ere ▶ ☐	76a
b	Rout … ng ☐ Savings	
d	Acc	
77	Amou	
78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78
79	Estimated tax penalty (see instructions) — 79	

• People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separat… $6,350; Married… jointly o… Qualifyi… widow(… $12,70…; Head o… househ… $9,350

Other Taxes

Paym… If you h… qualifyi… child, att… Schedule EIC.

Refund

Direct deposit? See instructions.

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Lincoln Financial Group
150 N. Radnor-Chester Road
Radnor, PA 19087

LCN-1658064-120616
POD 1/18 **Z09**
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e-Pocket TAX TABLES

2017 and 2018

Quick Links:

Protective®
Life Insurance Company

2017 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,325	$ 0	10%	$ 0
9,325	37,950	932.50	15%	9,325
37,950	91,900	5,226.25	25%	37,950
91,900	191,650	18,713.75	28%	91,900
191,650	416,700	46,643.75	33%	191,650
416,700	418,400	120,910.25	35%	416,700
418,400	———	121,505.25	39.6%	418,400

MARRIED FILING JOINTLY RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 18,650	$ 0	10%	$ 0
18,650	75,900	1,865.00	15%	18,650
75,900	153,100	10,452.50	25%	75,900
153,100	233,350	29,752.50	28%	153,100
233,350	416,700	52,222.50	33%	233,350
416,700	470,700	112,728.00	35%	416,700
470,700	———	131,628.00	39.6%	470,700

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 13,350	$ 0	10%	$ 0
13,350	50,800	1,335.00	15%	13,350
50,800	131,200	6,952.50	25%	50,800
131,200	212,500	27,052.50	28%	131,200
212,500	416,700	49,816.50	33%	212,500
416,700	444,550	117,202.50	35%	416,700
444,550	———	126,950.00	39.6%	444,550

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,325	$ 0	10%	$ 0
9,325	37,950	932.50	15%	9,325
37,950	76,550	5,226.25	25%	37,950
76,550	116,675	14,876.25	28%	76,550
116,675	208,350	26,111.25	33%	116,675
208,350	235,350	56,364.00	35%	208,350
235,350	———	65,814.00	39.6%	235,350

TRUSTS AND ESTATES RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,550	$ 0	15%	$ 0
2,550	6,000	382.50	25%	2,550
6,000	9,150	1,245.00	28%	6,000
9,150	12,500	2,127.00	33%	9,150
12,500	———	3,232.50	39.6%	12,500

SOCIAL SECURITY PAYROLL TAX

	Maximum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$127,200	6.2%	$ 7,886.40
Self-Employed	127,200	12.4%	15,772.80

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filer)	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 filer)	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)

2018 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,525	$ 0	10%	$ 0
9,525	38,700	952.50	12%	9,525
38,700	82,500	4,453.50	22%	38,700
82,500	157,500	14,089.50	24%	82,500
157,500	200,000	32,089.50	32%	157,500
200,000	500,000	45,689.50	35%	200,000
500,000	———	150,689.50	37%	500,000

MARRIED FILING JOINTLY RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 19,050	$ 0	10%	$ 0
19,050	77,400	1,905.00	12%	19,050
77,400	165,000	8,907.00	22%	77,400
165,000	315,000	28,179.00	24%	165,000
315,000	400,000	64,179.00	32%	315,000
400,000	600,000	91,379.00	35%	400,000
600,000	———	161,379.00	37%	600,000

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 13,600	$ 0	10%	$ 0
13,600	51,800	1,360.00	12%	13,600
51,800	82,500	5,944.00	22%	51,800
82,500	157,500	12,698.00	24%	82,500
157,500	200,000	30,698.00	32%	157,500
200,000	500,000	44,298.00	35%	200,000
500,000	———	149,298.00	37%	500,000

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,525	$ 0	10%	$ 0
9,525	38,700	952.50	12%	9,525
38,700	82,500	4,453.50	22%	38,700
82,500	157,500	14,089.50	24%	82,500
157,500	200,000	32,089.50	32%	157,500
200,000	300,000	45,689.50	35%	200,000
300,000	———	80,689.50	37%	300,000

TRUSTS AND ESTATES RATES

Taxable Income		Tax before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,550	$ 0	10%	$ 0
2,550	9,150	255.00	24%	2,550
9,150	12,500	1,839.00	35%	9,150
12,500	———	3,011.50	37%	12,500

SOCIAL SECURITY PAYROLL TAX

	Maximum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$128,400	6.2%	$ 7,961
Self-Employed	128,400	12.4%	15,922

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filer)	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 filer)	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 RATES

For 2017, if taxable income is:

Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 50,000	$ 0	15%	$ 0
50,000	75,000	7,500	25%	50,000
75,000	100,000	13,750	34%	75,000
100,000	335,000	22,250	39%	100,000
335,000	10,000,000	113,900	34%	335,000
10,000,000	15,000,000	3,400,000	35%	10,000,000
15,000,000	18,333,333	5,150,000	38%	15,000,000
18,333,333	———	6,416,667	35%	18,333,333

For 2018, all 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	2017 Exemption	2018 Exemption
Single or head of household	$54,300	$70,300
Married filing jointly	$84,500	$109,400
Married filing separately	$42,250	$54,700

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

Married filing jointly - $1,000,000
All other taxpayers - $500,000

AMT Income in Excess of Exemption 2017 / 2018	AMT Rate
First $187,800 / $191,500*	26%
Above $187,800 / $191,500	28%

*$93,900 / $95,750 for married persons filing separately

KIDDIE TAX (UNDER AGE 19 WITH UNEARNED INCOME)

		2017 Income Taxation
First	$1,050	No Tax
Next	$1,050	Child's Bracket
Amounts Over	$2,100	Parent's Bracket

In 2018, the "kiddie tax" on net unearned income is determined based on the ordinary and capital gains tax rates that apply to trusts and estates. See the Trusts and Estates Chart on page 3. 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 of $1,000 = $850; total $6,850).

PERSONAL EXEMPTION

Amount - The personal exemption amount that a taxpayer may claim for himself or herself and each dependent is set at $4,050 in 2017. For example, in 2017, a married couple with two dependent children files a joint tax return and claims four personal exemptions for a total of $16,200. A taxpayer (usually a child) cannot claim a personal exemption if he or she can be claimed as a dependent by another (usually a parent).

Reduction of Personal Exemption Amount - Personal exemptions claimed in 2017 must be reduced by 2% for each $2,500 ($1,250 for married filing separately) or fraction thereof of AGI in excess of a certain amount. For 2017, the threshold AGI amounts are $313,800 for married persons filing jointly, $287,650 for heads of households, $261,500 for singles, and $156,900 for married persons filing separately.

Elimination - Beginning in 2018, personal exemptions are no longer allowed.

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	2017	2018
Single	$6,350	$12,000
Married filing jointly	$12,700	$24,000
Head of household	$9,350	$18,000
Married filing separately	$6,350	$12,000

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). In 2017, the additional standard deduction amount is $1,250 if married or $1,550 if the person is unmarried or not a surviving spouse. In 2018, the additional standard deduction amount is $1,300 if married or $1,600 if the person is unmarried or not a surviving spouse.

Dependents - Taxpayers (usually children) who are claimed as dependents on another's (usually parents') tax return may only take a limited standard deduction. In 2017, the deduction amount cannot exceed the greater of (1) $1,050 or (2) $350 plus earned income (up to the regular standard deduction amount).

In 2018, this deduction is not allowed. Instead, the child tax credit is increased to $2,000 per child under age 18. A $500 credit is allowed for other dependents. The $2,000 child credit is refundable up to $1,400, but the $500 credit for other dependents is nonrefundable.

ITEMIZED DEDUCTIONS - 2017

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

Deductible	Not Deductible
1. Mortgage interest on one or two residences up to $1,000,000 of indebtedness	1. Auto loan interest
2. Points on home mortgages	2. Credit card interest
3. Home equity loan interest up to $100,000 of indebtedness	3. Most other consumer loan interest
4. Business interest	4. Prepaid interest other than points on home mortgages
5. Investment interest up to net investment income	

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. However, tax-payers 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 in 2017.

Losses - Individuals can deduct three basic types of losses: 1) business losses incurred in the taxpayer's unincorporated business, 2) investment losses if the investment was originally motivated by profit, and 3) casualty and theft losses, but each separate loss is reduced by $100, and the total of such losses is only deductible to the extent it exceeds 10% of AGI in 2017.

Reduction of Itemized Deductions - Itemized deductions claimed in 2017 must be reduced by 3% of AGI in excess of a certain amount based upon the taxpayer's income tax filing status, and the maximum reduction is 80%.The AGI threshold amounts for 2017 are $313,800 for married persons filing jointly, $287,650 for heads of households, $261,500 for singles, and $156,900 for married persons filing separately.

ITEMIZED DEDUCTIONS - 2018

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

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

Beginning in 2018, all miscellaneous deductions subject to the 2% floor under IRC §67 are repealed.

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 in 2018. 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. Beginning in 2018, casualty and theft losses are not deductible except for declared national disasters.

Reduction of Itemized Deductions (Pease Limitation) - Repealed

DEDUCTION FOR QUALIFIED BUSINESS INCOME

In 2017, owners of pass-through entities (sole proprietorships, S corporations, limited liability companies (LLCs) or partnerships) are generally taxed on business income directly at their individual income tax rates (with applicable individual standard deductions).

In 2018, 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 taxes—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.

CAPITAL GAINS AND DIVIDENDS

Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends - In 2017, the tax rate is 15% for most individual taxpayers, but 0% for taxpayers in the lower two tax brackets and 20% for taxpayers in the top 39.6% bracket. In 2018, the same three tax rates are applied, but at thresholds which do not coincide with particular tax brackets:

- The 0% rate applies to single filers with income up to $38,600 ($77,200 for joint filers).
- The 15% rate applies to single filers with income from $38,601 to $425,800 ($77,201 to $479,000 for joint filers).
- The 20% rate applies to single filers with income above $425,800 ($479,000 for joint filers).

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 GAINS AND DIVIDENDS (cont.)

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 - In 2017 and 2018, 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).

DEDUCTION FOR CONTRIBUTIONS TO PUBLIC CHARITIES

Type of Property Contributed	Deemed Amount of Contribution	Percentage Limitation[1] 2017	Percentage Limitation[1] 2018
Cash	Actual dollar amount	50%	60%
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%
(c) 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.

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS

	2017	2018
Defined Contribution Plans - Annual additions limit for defined contribution plans [IRC Sec. 415(c)]	$54,000	$55,000
Defined Benefit Plans - Annual benefit limit for defined benefit plans [IRC Sec. 415(b)]	$215,000	$220,000
401(k) - Annual limit on deferrals [IRC Sec. 402(g)]	$18,000	$18,500
Plus: age 50+ catch-up	$6,000	$6,000
403(b) - Annual limit on deferrals [IRC Sec. 402(g)]	$18,000	$18,500
Plus: age 50+ catch-up	$6,000	$6,000
Salary Reduction SEPs (SARSEPs) - Annual limit on elective deferral [IRC Sec. 402(g)]	$18,000	$18,500
Plus: age 50+ catch-up	$6,000	$6,000
Annual Limit On Elective Deferrals to 457 Plans - [IRC Sec. 457(b)(2)(c)(1)]	$18,000	$18,500
Plus: age 50+ catch-up	$6,000	$6,000
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)]	$270,000	$275,000
Nondiscrimination Rules - For “highly compensated employees” [IRC Sec. 414(q)(1)]	$120,000	$120,000
Annual Compensation Subject to SEP Discrimination Rules - [IRC Sec. 408(k)(3)(c)]	$270,000	$275,000
Compensation Threshold for SEP Participation - [IRC Sec. 408(k)(2)(c)]	$600	$600
Annual Limit on Elective Deferrals to SIMPLE Plans - [IRC Sec. 408(p)]	$12,500	$12,500
Plus: age 50+ catch-up	$3,000	$3,000

INDIVIDUAL RETIREMENT ACCOUNTS

Traditional IRA

Contribution Limit - In 2017 and 2018, the lesser of $5,500 ($6,500 for taxpayers age 50+) or earned income.

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 may be subject to a reduced deduction based on modified adjusted gross income (MAGI).
- In 2017, the MAGI phase-out of the deduction for single taxpayers begins at $62,000 and the deduction is lost at $72,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $99,000 and the deduction is lost at $119,000. In 2018, the MAGI phase-out of the deduction for single taxpayers begins at $63,000 and the deduction is lost at $73,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $101,000 and the deduction is lost at $121,000.

INDIVIDUAL RETIREMENT ACCOUNTS

Roth IRA

Contribution Limit - In 2017 and 2018, the lesser of $5,500 ($6,500 for taxpayers age 50+) or earned income.

Contribution Limit Based on Modified Adjusted Gross Income - In 2017 and 2018, the amount taxpayers can contribute to a Roth IRA is subject to a MAGI phase-out.

- In 2017, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $118,000 and no contribution is permitted if MAGI is $133,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $186,000 and no contribution is permitted if MAGI is $196,000 or more.
- In 2018, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $120,000 and no contribution is permitted if MAGI is $135,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $189,000 and no contribution is permitted if MAGI is $199,000 or more.

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

REQUIRED MINIMUM DISTRIBUTIONS: UNIFORM LIFE TABLE

The Uniform Life Table is used to calculate lifetime required minimum distributions (RMDs) from qualified retirement plans, including 401(k) and 403(b) plans, and IRAs. To use this table, owners must be:

- Unmarried
- Married with a spouse who is not more than ten years younger
- Married with a spouse is not the sole beneficiary of the account

Married owners whose spouse is more than 10 years younger determine the appropriate life expectancy using the Joint and Last Survivor Table.

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

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

Age	Factor	Age	Factor	Age	Factor
70	27.4	85	14.8	100	6.3
71	26.5	86	14.1	101	5.9
72	25.6	87	13.4	102	5.5
73	24.7	88	12.7	103	5.2
74	23.8	89	12.0	104	4.9
75	22.9	90	11.4	105	4.5
76	22.0	91	10.8	106	4.2
77	21.2	92	10.2	107	3.9
78	20.3	93	9.6	108	3.7
79	19.5	94	9.1	109	3.4
80	18.7	95	8.6	110	3.1
81	17.9	96	8.1	111	2.9
82	17.1	97	7.6	112	2.6
83	16.3	98	7.1	113	2.4
84	15.5	99	6.7	114	2.1
				115+	1.9

REQUIRED MINIMUM DISTRIBUTIONS: SINGLE LIFE EXPECTANCY TABLE

The following section concerns the RMD for individuals who inherit accounts. The required beginning date (RBD) is the date on which the owner has to begin taking distributions from a qualified retirement plan (age 70 1/2).

When the owner dies BEFORE reaching the RBD

If the owner dies before reaching the RBD for taking required minimum distributions (RMDs), and there is a designated beneficiary, use the designated beneficiary's life expectancy as calculated by using his or her age in the year following the year of the owner's death, and reduce by one for each passing year. But, if there is no designated beneficiary, the entire interest must be paid out by the end of the year marked by the fifth anniversary of the owner's death.

When the owner dies AFTER reaching the RBD

If there is a designated beneficiary, there are two options for taking RMDs after the owner's death:

- Use the life expectancy method using the designated beneficiary's life expectancy (as described above), or
- Use the deceased owner's remaining life expectancy at death based on his or her age in the year of death, and reduced by one for each year thereafter.

If there is no designated beneficiary, the only distribution period available is based on the deceased owner's life expectancy in the year of death, and reduced by one for each year thereafter.

Options for the Surviving Spouse as Sole Beneficiary

The spouse may elect to treat the account as his or her own IRA.

In the event the owner dies before reaching the RBD, the spouse may defer payments until the year the deceased owner would have reached age 70 1/2. Thereafter, RMDs are calculated based upon the spouse's life expectancy.

In the event the owner dies after the RBD, the spouse must take the deceased owner's RMD for the year of death (if the owner dies before taking the distribution). And, starting in the year after the owner's year of death, the spouse takes RMDs based on his or her life expectancy. OR, the spouse could choose to take a lump sum or distributions of varying amounts over time (as long as all funds are distributed within five years).

Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor
0	82.4	19	64.0	38	45.6	57	27.9	76	12.7	95	4.1
1	81.6	20	63.0	39	44.6	58	27.0	77	12.1	96	3.8
2	80.6	21	62.1	40	43.6	59	26.1	78	11.4	97	3.6
3	79.7	22	61.1	41	42.7	60	25.2	79	10.8	98	3.4
4	78.7	23	60.1	42	41.7	61	24.4	80	10.2	99	3.1
5	77.7	24	59.1	43	40.7	62	23.5	81	9.7	100	2.9
6	76.7	25	58.2	44	39.8	63	22.7	82	9.1	101	2.7
7	75.8	26	57.2	45	38.8	64	21.8	83	8.6	102	2.5
8	74.8	27	56.2	46	37.9	65	21.0	84	8.1	103	2.3
9	73.8	28	55.3	47	37.0	66	20.2	85	7.6	104	2.1
10	72.8	29	54.3	48	36.0	67	19.4	86	7.1	105	1.9
11	71.8	30	53.3	49	35.1	68	18.6	87	6.7	106	1.7
12	70.8	31	52.4	50	34.2	69	17.8	88	6.3	107	1.5
13	69.9	32	51.4	51	33.3	70	17.0	89	5.9	108	1.4
14	68.9	33	50.4	52	32.3	71	16.3	90	5.5	109	1.2
15	67.9	34	49.4	53	31.4	72	15.5	91	5.2	110	1.1
16	66.9	35	48.5	54	30.5	73	14.8	92	4.9	111	1.0
17	66.0	36	47.5	55	29.6	74	14.1	93	4.6		
18	65.0	37	46.5	56	28.7	75	13.4	94	4.3		

2017 and 2018 Gift and Estate Unified 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	2017	2018
Top Estate Tax Rate	40%	40%
Estate Tax Applicable Exclusion Amount	$5,490,000	$11,180,000

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	2017	2018
Top Gift Tax Rate	40%	40%
Annual Gift Tax Exclusion	$14,000 per donee	$15,000 per donee
Annual Gift Tax Exclusion for a Noncitizen Spouse	$149,000	$152,000
Lifetime Gift Tax Applicable Exclusion Amount	$5,490,000	$11,180,000

e-Pocket TAX TABLES

2017 and 2018

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Legislative Update | Tax Cuts and Jobs Act

Business tax highlights

Table of contents

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (P.L. 115-97). Highlights of many key business provisions are outlined below. We'll continue to provide additional information and analysis as we move forward in 2018.

When will these provisions go into effect? Unless noted, the provisions became effective for tax years beginning after **December 31, 2017**.

Business taxation overview

Provision	2017 Law	New Law	Analysis
Income taxation of C corporations IRC Section 11(b)	C corporations were subject to graduated rates as follows: $0 - $50K 15% $50K - $75K 25% $75K - $10M 34% Over $10M 35%	All C corporations (including personal service corporations) are subject to a flat income tax rate of 21%, for tax years beginning after December 31, 2017.	C corporation owners are subject to taxation both at the entity level and the individual level. The 21% flat tax rate has no scheduled expiration date.
Repeal of corporate alternative minimum tax IRC Sections 53, 55-59	Larger C corporations were subject to an alternative minimum tax, to the extent that their tentative minimum tax exceeded their regular tax.	The corporate alternative minimum tax is repealed.	The corporate alternative minimum tax generally applied only to larger C corporations (generally defined as having average annual gross receipts of $7,500,000 over three-year period). See page 2 for further analysis.

Provision	2017 Law	New Law	Analysis
Income taxation of pass-through entities and sole proprietorships New IRC Section 199A	Income passed through to owners of S corporations, partnerships, sole proprietorships and most LLCs was taxed at the individual's top marginal rate.	An income tax deduction of up to 20% of "qualified business income" is available to many owners of pass-through businesses. Income and other limits apply.	This deduction will effectively lower the income tax liability of many pass-through business owners. This change is scheduled to expire after December 31, 2025.
Executive compensation deduction limitation IRC Section 162(m)	Limits deductibility for compensation more than $1M for public company's covered executives.	Expands definition of public company and covered executives. Expands compensation definition to include performance-based compensation and commissions.	This new definition applies to public companies and companies that have registered debt offerings (Sec. 15(d)). Covered employees include CEO, CFO and next 3 highest compensated officers.
Executive compensation and tax-exempt organizations New IRC Section 4960	Tax-exempt organizations were generally not subject to compensation limitations. May be limited by private inurement rules under IRC Sec. 4598 if compensation is excessive.	Imposes an annual 21% excise tax to any applicable tax-exempt organization on compensation more than $1M on any covered employee. Covered employees include the organization's 5 highest paid employees.	The $1M compensation includes wages and parachute payments. The statute does not include a control group rule so several questions remain unanswered.

C corporation tax changes

The graduated tax rates that were previously in effect for C corporations have been replaced with a flat rate of 21% for all C corporations. This includes personal service corporations, which were previously subject to a flat rate of 35%.

For profitable C corporations, employers will have additional after-tax income for company expansion, company protection and key employee retention. As was the case under prior law, C corporation owners are generally taxed on corporate distributions, which creates two levels of taxation.

The repeal of the corporate alternative minimum tax (AMT) is favorable for C corporations that own life insurance. Under prior law, a portion of a life insurance death benefit paid to a C corporation subject to AMT would be considered a tax adjustment item subject to the AMT calculation. A portion of cash value growth for a corporate-owned policy might also be considered a tax adjustment item. The repeal of the corporate AMT will mean life insurance death proceeds to the corporation will generally be income tax-free.

Personal holding company tax

With lower tax rates and the appeal of accumulating funds in a C corporation, the penalty for personal holding companies (PHCs) could become a concern for some business owners. This 20% penalty (paid at the company level) is triggered by certain types of undistributed passive-type income from PHCs (as defined by the Code) that are not distributed to business owners. S corporations are generally not subject to the PHC tax.

Business owners should carefully monitor their C corporation for possible PHC status if much of business income comes from passive sources. If the company is classified as a PHC (as defined by the Code), care should be exercised to distribute passive-type income to business owners during the taxable year, notwithstanding the likely dividend income tax treatment at the personal level.

Accumulated earnings tax

If a C corporation retains earnings over a certain level (generally $250,000 or $150,000 for personal service corporations) without a reasonable business purpose, the income may be subject to a 20% accumulated earnings penalty tax. This would be paid at the corporate level, in addition to the corporate income tax. (The same income will not be subject to both PHC tax and accumulated earnings tax.)

No change was made in this potential tax under the Act. This means business owners should exercise care that substantial accumulations of earnings are retained for reasonable business purposes.

What are examples of reasonable business purposes? Key person life insurance funded with permanent life insurance might be one. Informal company funding of nonqualified deferred compensation might be another example. And, planned business expansion might be a third.

Pass-through business deduction

A new deduction has been created for owners of pass-through entities, designed to reduce the income tax rates of certain business owners.[1] The deduction is available for up to 20% of qualified business income (QBI) of certain business owners, subject to limitations. The deduction is applied at the individual level, not the business level. The availability of the deduction depends in part on the individual business owner's taxable income, as follows:

For individuals with taxable income below $157,500 (single) or $315,000 (married filing jointly): the deduction is 20% of QBI.

For individuals with taxable income $157,500 - $207,500 (single) or $315,000 - $415,000 (married filing jointly): the 20% deduction is subject to phaseout, as well as a special reduction for service business owners.

For individuals with taxable income exceeding $207,500 (single) or $415,000 (married filing jointly): the deduction is available only for owners of businesses other than a "specified service trade or business," as defined on page 6. The deduction for those individuals may be less than 20%.

Pass-through business owner's taxable income level	Specified service business[2]	Nonservice businesses[3]
Owner with taxable income **below threshold** ($157,500 single, $315,000 married filing jointly)	20% deduction	20% deduction
Owner with taxable income **in phaseout range** ($157,500 - $207,500 single, $315,000 - $415,000 married filing jointly)	Deduction is subject to both a phaseout and a reduction (see "Service business reduction" on page 6)	Part or all of deduction may be phased out, depending on results of the wage/basis calculation amount (see "Phaseout calculation" on page 5)
Owner with taxable income **exceeding phaseout range** ($207,500 single, $415,000 married filing jointly)	No deduction	Deduction is the lesser of the 20% amount or the WBC amount (described below)

Qualified business income deduction examples

Example 1: Phil has an S corporation that passes through $100,000 of income to him. Phil is married filing jointly, with taxable income of $225,000. Phil receives a deduction in the amount of $20,000 (20% x $100,000), regardless of the nature of the business.

Example 2: Patti is the owner of Patti's Wine Shop, which passes through $200,000 of income to her. Patti is married filing jointly, with taxable income of $365,000. Patti's initial 20% calculation amount is $40,000, but since her income is above the $315,000 threshold, the deduction will be reduced (see examples 4 and 6 below, for details).

Example 3: Lance has a law practice and Lance's Pizza Café that each pass through $200,000 of income to him. Lance is married filing jointly, with taxable income of $500,000. Lance does not receive a deduction for the income from his law practice, because it's a specified service business and his income is above the phaseout range. However, he might be eligible to take a deduction for a portion of the income from the pizza café, depending on the results of a second calculation involving wages and his basis (explained below).

W-2 wages and basis calculation (WBC)

For owners of businesses whose taxable income exceeds the thresholds described above, there's an additional stage to calculating the deduction.[4] The W-2 wages and basis calculation (we'll call it WBC) determines the greater of: (a) 50% of the owner's allocable share of the business's W-2 wages, or (b) 25% of the share of the W-2 wages plus 2.5% of the unadjusted basis of all qualified property (defined on page 7).

Example 4: Returning to Patti's Wine Shop above: in addition to the facts in Example 2, Patti's unadjusted basis in her shop is $100,000, and Patti's allocable share of wages is $50,000.[5] The WBC calculation amount is $25,000. This is the greater of (a) $25,000 (50% of her allocable share of wages), or (b) $15,000 (25% of wages ($12,500), plus 2.5% of basis ($2,500)). The WBC amount is necessary to calculate Patti's phaseout, as explained below.

In 2018, the phaseout range for single individuals is $157,500 - $207,500. For married individuals filing jointly, the range is $315,000 - $415,000. The phaseout calculation is explained below.

For individuals above the phaseout range (such as Lance in Example 3, above), the deductible amount for the owner of a nonservice business, such as Lance's Pizza Café, is the lesser of (a) 20% of qualified business income, or (b) the WBC amount.[6]

Example 5: Assume that Lance's Pizza Café, in Example 3, happens to have the same WBC calculation just described for Patti. So his basis is $100,000 and his share of wages is $50,000. This means his WBC amount is $25,000 (the same as Patti's). Lance's deduction will be limited to $25,000. This is because he's outside the phaseout range, meaning that his deduction is limited to the lesser of the 20% amount ($200,000 x 20%, or $40,000) or the WBC amount ($25,000).

Phaseout calculation

For taxpayers whose income is in the phaseout range (like Patti, above), it's necessary to determine the amount of the deduction that's phased out. (No phaseout applies to business owners with taxable income below the phaseout thresholds.)

For business owners in the phaseout range, the phaseout is calculated by multiplying the excess, if any, of (a) the 20% amount (20% of QBI), over (b) the WBC amount, by a fraction.[7] The numerator for the fraction is the amount by which the taxable income of the owner exceeds the phaseout threshold. The denominator is the $50,000 (single) or $100,000 (married filing jointly) phaseout range amount. This fraction produces the phaseout percentage.

Example 6: Patti's Wine Shop: Using the facts in Examples 2 and 4, the calculation of Patti's phaseout is as follows:

- Patti's taxable income is $365,000. This exceeds the phaseout threshold (of $315,000 for married filing jointly) by $50,000.
- The fraction is $50,000 excess/$100,000 phaseout range amount. So the phaseout percentage is 50%.
- The difference between Patti's initial 20% amount ($40,000) and WBC amount ($25,000) is $15,000.
- That difference of $15,000 is multiplied by the 50% phaseout percentage: $15,000 x 50% = $7,500.
- Patti's initial 20% amount is reduced by $7,500, meaning that her **deduction amount is $32,500** ($40,000 - $7,500).

Service business reduction – Service business owners whose taxable income is in the phaseout range must apply an additional reduction to the components of the previous calculation,[8] as shown here:

Example 7: Assume all the same information as in Example 6, but instead of a wine shop, Patti has a CPA business. Patti's taxable income, filing status and phaseout percentage of 50% are the same as in Example 6. But, because she has a service business (and taxable income in the phaseout range), Patti must also reduce each component of the calculation by her 50% phaseout percentage, as follows:

- Reduced pass-through income ($200,000) x 50% phaseout percentage = $100,000. So, 20% of adjusted pass-through income is **$20,000**.
- Reduced unadjusted basis ($100,000) x 50% phaseout percentage = $50,000. (2.5% of this reduced unadjusted basis = $1,250.)
- Reduced wages ($50,000) x 50% phaseout percentage = $25,000. (50% of this is $12,500, and 25% of it is $6,125.)
- 20% of reduced pass-through income = **$20,000**.
- WBC calculation based on the reduced numbers is the greater of:
  - 50% of reduced wages ($25,000) or **$12,500**.
    OR
  - 25% of reduced wages ($6,250) plus 2.5% of reduced unadjusted basis ($1,250) = **$7,500.** The reduced WBC is the greater of these, or **$12,500**.
  - The service business reduction reduces Patti's deduction by 50% of the difference between $20,000 and $12,500 (50% x $7,500), or $3,750. Patti's reduced and partially phased out deduction is $20,000 - $3,750, or **$16,250**.

Definitions

A specified service trade or business – Services in the fields of health, law, accounting, actuarial science, performing arts, consulting, and athletics. Plus, services that consist of investing and investment management, trading, or dealing in securities interests or commodities. It generally means a trade or business in which the principal asset is the reputation or skill of one or more of its employees. Engineering and architecture are excluded from this definition.

Taxable income – The taxable income of the individual owner, determined before the QBI deduction. The QBI deduction is taken after the determination of adjusted gross income, but it's not an itemized deduction, meaning that taxpayers who take the standard deduction will still have the availability of the QBI deduction as well.

Qualified business income – The net amount of qualified items of income, gain, deduction and loss that are connected with the conduct of the qualified trade or business.[9] Investment items of capital gain or loss, dividends, and annuity income received by the business are excluded from this amount. It also doesn't include reasonable compensation paid to the owner, or guaranteed payments to a partner, for services rendered.

W-2 wages –Includes all wages paid by the business as taxable compensation, including the compensation to the owner, as well as elective deferrals (such as salary contributed to a 401(k) plan). Wages do not include owner distributions. An owner's share of W-2 wages is his or her share based on the partnership allocations, or on the pro rata share of the owner in an S corporation.

Qualified property – For purposes of the unadjusted basis calculation, this generally means tangible property used in the trade or business that's depreciable, but has not reached the end of its depreciation recovery period.

Executive compensation

For-profit companies

The executive compensation deduction limitation expands the $1 million compensation definition limitation to include performance-based compensation and commissions. This provision applies to publicly traded companies and certain closely held businesses that have registered debt offerings (Section 15(d)).

Covered executives include the CEO, CFO, and the next three highest paid employees. It also includes any individual who was once a covered employee, regardless of whether job duties have changed or the individual has separated from service.

The section includes a transition rule that would exempt any compensation paid, "pursuant to a written binding contract [that] was in effect on November 2, 2017, and [that] was not modified in any material respect on or after such date." This transition rule closely follows Section 162(m) regulations.

Tax-exempt organizations

A new annual 21% excise tax is imposed on applicable tax-exempt organizations on compensation more than $1M on any covered employee. This limitation for tax-exempt organizations is imposed by newly created Section 4960.

For this purpose, a covered employee is one of the organization's top five highly paid employees for the taxable year, and any employee who was a covered employee for any preceding taxable year beginning after December 31, 2016. Covered employee status is not limited to just the organization's officers.

There's an exception for certain types of compensation. Any "remuneration" received by a licensed medical professional for performing medical services is not included in the compensation calculation. Wages that some medical professionals would receive for administrative services (not medical services), would be included in the compensation calculation.

Planning opportunities

Choice of entity

Choice of entity depends upon tax and nontax factors. All such factors should be considered when deciding which type of entity is most advantageous.

From an income tax law standpoint, the new 21% flat tax on C corporations is attractive. For some business owners, the first instinct might be to change to C corporation status. However, profits of C corporations are still subject to double taxation when distributed to shareholders. Also, if the C corporation sells most or all of its assets to an outside party (often referred to as an "asset sale"), the sale may be subject to double taxation.

Business owners of pass-through entities are subject to one level of taxation based on individual tax rates with a possible 20% tax deduction against their pass-through income. However, the 20% tax deduction may be reduced or eliminated based on individual taxable income and other factors. The possible reduction or elimination of the 20% tax deduction for pass-through income would be an important factor to consider, particularly for business owners of profitable S service corporations.

If an S corporation converts to a C corporation, no immediate gain or loss is generally realized upon conversion. Once the S election is revoked or terminated, however, the corporation cannot elect S status again for five years without IRS approval.

Business planning and life insurance

In larger C corporations that were previously subject to the alternative minimum tax, cash value life insurance may be more attractive in the absence of that tax.

For some business owners, an executive bonus to a key employee that increases deductible wages may result in a higher qualified business income deduction by raising the wage portion of the calculation. This may increase the appeal of an executive bonus or restricted bonus plan.

With a lower business tax bracket, some business owners may revisit their qualified plans if these plans are the primary vehicle for their retirement funds. With the sunset provision for lower individual income tax rates, business owners may be receiving qualified retirement distributions in a higher tax bracket. A simple nonqualified bonus plan funded with life insurance may be attractive as a supplement to qualified plan benefits.

Personal planning for business owners

Since the new deduction for qualified business income is applied on the basis of an individual owner's taxable income, taxpayers who own a pass-through business may wish to consider planning steps at the personal level. These may include making charitable gifts, deferring income, and accelerating deductions to manage taxable income levels. A business owner whose spouse has high earnings or income even from an unrelated business may be subject to phaseout of the deduction based on the taxable income on their joint return.

Cross purchase buy-sell arrangements

Many small business owners, particularly in businesses with two or three owners, may prefer to own the policies on themselves that are used to fund a cross purchase agreement, but may have been advised against it. This is due to (a) possible estate inclusion of both the business and the life insurance death benefit, (b) the need for a split dollar agreement and yearly inclusion of the value of the economic benefit, and (c) possible "transfer for value" concerns which may cause a portion of the life insurance death benefit to be considered taxable income to the beneficiary of the proceeds. With the increase in the estate exemption to over $11 million, more owners might find owning the policies themselves more appealing (assuming there's no "transfer for value" problem).

Key employee retention and retirement

The underlying reasons for these arrangements — to recruit, reward, retain and retire top employees — are unchanged. Bonus plans, nonqualified deferred compensation plans, and split dollar arrangements are commonly used to achieve these goals. The reduced taxes mean that more funds may be available for these plans.

Summary

The changing tax environment is a great time to look at business planning goals, such as succession planning, business protection, employee retention, and protection of business owners' families and lifestyles. The income tax reductions may make more funds available for meeting these goals. In addition, business owners might find that a bonus arrangement or other change in wage structure could offer a more favorable outcome for the new qualified business income deduction.

While many of the benefits of the Tax Cuts and Jobs Act are set to sunset after 2025, the basics and benefits of planning never expire. As with all business planning strategies, it's vital that businesses consult with local counsel for detailed tax and legal advice.

[1] Pass-through entities include S corporations, partnerships, sole proprietorships, and LLCs that are taxed as any of these pass-through entity types

[2] See the definitions section for the meaning of "specified service trade or business." Examples include accountants, attorneys, doctors and dentists.

[3] Examples include manufacturing, construction and retail businesses.

[4] For taxpayers below the threshold amounts, the WBC is disregarded. See IRC Sec. 199A(b)(3)(A).

[5] If Patti's pro rata share of wages is $50,000, that could mean, for example, that (a) she is the 100% owner and total wages paid to all Wine Shop employees (including herself) was $50,000, or (b) Patti is a 50% owner and the total wages paid to all employees was $100,000, or (c) Patti is a 20% owner and the total wages paid to all employees was $250,000, and so on. The amount of W-2 wages allocable to an owner is not measured solely by the owner's compensation.

[6] See IRC Sec. 199A(b)(2).

[7] See IRC Sec. 199A(b)(3). If the WBC equals or exceeds the 20%, this phaseout does not apply. IRC Sec. 199A(b)(3)(A).

[8] See IRC Sec. 199A(d)(3).

[9] Qualified business income does not include a reasonable salary paid to the owner. The term also does not include qualified real estate investment trust (REIT) dividends, qualified cooperative dividends or qualified publicly traded partnership income, but those items are treated separately and may trigger the deduction separately.

Legislative Update | Tax Cuts and Jobs Act

Estate and gift tax provision highlights

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (P.L. 115-97). Highlights of the key provisions are outlined below. We'll continue to provide additional information and analysis as we move forward in 2018.

When will these provisions go into effect? Unless noted, **January 1, 2018**. However, most changes will **sunset after 2025** (as noted by footnote 1) and revert to their 2017 numbers, adjusted for inflation.

2018 Federal estate and trust income tax brackets and rates

Under the new law, the top federal marginal rate is 37%.

Income tax rates[1, 2]	Estates and trusts	
10%	$0 to $2,550	10% of the taxable income
24%	$2,551 to $9,150	$255 plus 24% of the excess over $2,550
35%	$9,151 to $12,500	$1,839 plus 35% of the excess over $9,150
37%	Over $12,500	$3,011.50 plus 37% of the excess over $12,500

Estate and gift tax:

Provision	2017 Law	New Law	Analysis
Estate and Gift Tax Exemption[1] IRC Section 2010(c)(3)	Exemption for both estate and gift taxes $5.49 million per person, indexed to the traditional consumer price index (CPI) measure of inflation	Exemption for both estate and gift taxes $11.2 million per person, indexed to the Chained CPI (C-CPI) measure of inflation	With higher exemption, fewer will be impacted by the estate and gift tax. Opportunity to make additional gifts.
Generation-Skipping Transfer Tax Exemption[1] IRC Section 2631(c)	Exemption for both estate and gift taxes $5.49 million per person, indexed to the traditional CPI measure of inflation	Exemption for both estate and gift taxes $11.2 million per person, indexed to the Chained CPI (C-CPI) measure of inflation	Opportunity to fund dynasty trusts for future generations.

Provision	2017 Law	New Law	Analysis
Annual Exclusion IRC Section 2503	$14,000 per donee, indexed to the traditional CPI measure of inflation	$15,000 per donee, indexed to the Chained CPI (C-CPI) measure of inflation	Opportunity for increased annual gifting.
Portability IRC Section 2010(c)	Allows surviving spouse to use deceased spouse's unused federal estate tax exemption (DSUE)	Retained	Consider filing for DSUE in anticipation of sunset of current estate tax exemption amounts at the end of 2025.
Basis adjustment at death IRC Section 1014	Original basis in property adjusted to fair market value at death of owner	Retained	Consider holding appreciated basis assets until death to receive step up.

[1] Change will sunset after 2025 and revert to its 2017 numbers, adjusted for inflation.

[2] These rates are imposed on *taxable income*, meaning income remaining after applicable exclusions, deductions and exemptions are claimed. Note that each rate applies only to income falling within that bracket.

Planning opportunities

Life insurance

Estate planning involves more than just planning for federal estate taxes. Even though the exemption is set at a relatively high level, many needs often addressed by estate planning remain. Life insurance, owned inside or outside of the estate (depending on your situation), may help solve these needs:

- Creating liquidity for the payment of state estate and inheritance taxes
- Providing for spouses, children and other loved ones
- Addressing special needs planning
- Protecting multi-generational planning
- Providing liquidity planning for income taxes
- Equalizing inheritances
- Protecting assets in an estate
- Navigating second marriages
- Planning for same-sex couples
- Protecting non-citizen spouses
- Augmenting supplemental retirement income
- Increasing charitable giving
- Planning for education
- Supporting healthcare planning (e.g., chronic illness)
- Funding business protection and business succession planning

Outright gifts

A current gift removes both the asset and any future appreciation from the taxable estate and may "lock in" the current $11.2 million exemption against future changes in the law. The higher gift exemption presents a substantial opportunity to transfer wealth and reduce long-term estate tax exposure for individuals willing and able to make lifetime gifts.

Of course, lifetime gifts carry over the basis of the asset gifted, instead of adjusting the basis to the fair market value, as happens when an asset is inherited. Individuals should consider the potential advantages and disadvantages of making lifetime gifts.

Irrevocable life insurance trusts (ILITs)

ILITs are trusts designed to hold life insurance policies and to make policy proceeds available for estate liquidity needs, while excluding policy death benefits from the insured's estate. The higher gift exemption provides clients the opportunity for increased funding of current policies, as well as the ability to potentially unwind existing private split dollar arrangements.

Even if federal estate taxes are not a concern, properly drafted ILITs may provide:

- Income tax-free death benefits upon the death of the insured(s)
- Potential protection from the claims of the grantor's future creditors, including ex-spouse or spendthrifts
- Distribution flexibility to provide for blended families or protection for beneficiaries who may need help handling money
- Protection from state estate and inheritance taxes
- Spousal support
- Inheritance equalization
- Generation-skipping transfer tax planning
- Management of insurance and assets
- Financial support for loved ones with special needs

Given that the current estate tax rules are scheduled to sunset after 2025, and the uncertainty of estate taxes in the future, you may wish to retain existing ILITs.

Reposition existing insurance

The increased gift tax exemption can be used to correct existing estate planning concerns. For example, if an existing life insurance policy is owned by the insured, the policy death benefit will generally be included in the taxable estate of the insured. The increased gift tax exemption may be used to transfer the policy from the insured or to fund an underfunded policy without incurring gift taxes.

It's important to consider the estate inclusion rule when policies are transferred within three years of death. Also remember that transfers of a policy, even if not subject to gift taxes, can trigger income tax recognition or a transfer for value, particularly when an outstanding loan exists or the policy is currently owned by a business.

In light of the higher federal tax exemption, some may desire to modify or unwind ILITs. ILITs are irrevocable and generally can't be amended. However, court actions, trust mergers, decanting, powers of appointment and sales of insurance policies may provide methods of modifying current arrangements.

Dynasty trusts

Dynasty trusts permit wealth to be excluded from transfer taxes over multiple generations by making use of the generation-skipping transfer tax (GSTT) exclusion. With the larger exemption, dynasty trusts can be funded with lifetime gifts equal to the full $11.2 million GSTT exemption without incurring gift taxes. These trusts can own life insurance, as well as other assets.

With proper allocation of the GSTT exemption, assets in the dynasty trust and appreciation of these assets may be exempt from future estate, gift and GSTT taxes.

Valuation discounts

Some may consider taking advantage of valuation discounts (e.g., minority interest discounts) in transferring interests in a business or closely held entity. Using this strategy, you gift minority interests of closely held entities subject to transfer restrictions. “Lack of control” and “lack of marketability” discounts may be applied to decrease the fair market value of the gift. Along with the increased lifetime gift and exemption amounts, valuation discounts may allow you to transfer more of the interest while reducing gift taxes.

Sale of assets to an intentionally defective grantor trust (IDGT)

Another strategy is a sale of assets to an IDGT. With an IDGT, property is sold to the trust by the grantor. Based on a special provision in the trust, the trust grantor continues to be treated as the “owner” of the trust property for income tax purposes. Yet, the trust property is kept outside of the grantor’s estate for federal estate tax purposes.

With the current low Applicable Federal Rates, the income generated by the asset sold to the IDGT may exceed that needed to service the note, leaving cash flow to pay life insurance premiums. The higher gift exemption can be used to help fund the initial down payment of the note. If the IDGT is designed as a dynasty trust and the GSTT exclusion is allocated, the trust assets can potentially be shielded from future transfer taxes.

Inheritance equalization

Business, farm or ranch assets may comprise the majority of your estate. When some children participate in the business or operations and others do not, life insurance may offer an opportunity to provide a fair division of assets, while making sure that control and ownership remain with the children working in the business. The increased exemption may simplify premium funding and minimize estate tax considerations.

Grantor retained annuity trusts (GRATs)

GRATs are popular wealth-transfer tools that are often used to provide funding for exit strategies from premium financing and split dollar life insurance programs. You may want to consider GRATs with durations of 2-8 years. Terminating the GRAT before the current estate tax changes sunset at the end of 2025, may allow you to take advantage of the potential higher estate tax exemption if you should die during the GRAT term.

Summary

The changing tax environment is a great opportunity to review your estate plans. While many of the benefits of the Tax Cuts and Jobs Act are scheduled to sunset after 2025, the basics and benefits of planning never expire. As with all estate planning strategies, it’s vital that you consult local counsel about your individual situations.

State corporate tax rates

As of 12/22/2017

In 2017, 45 states and the District of Columbia levied taxes on their corporate citizens. Most were income taxes (often referred to as "franchise taxes"), with a few designed as taxes on gross receipts and several supplemented by surtaxes.

The income tax rates, in the jurisdictions that impose them, range from 3% in North Carolina to a marginal rate of up to 12% in Iowa. Fourteen states have top income taxes at or above 8%; only four have rates below 5%.

While federal income tax reform has brought welcome relief to corporations subject to federal income taxation, owners must remain mindful of the impact of state income taxes on their companies.

State	Flat tax or graduated rates	Corporate tax rate	State law source
Alabama	Flat	6.5%	AL Code § 40-18-31 (2016)
Alaska	Graduated	0-9.4%[1]	AK Stat § 43.20.011(e) (2016)
Arizona	Flat	4.9%	AZ Rev Stat § 43-1111 (2016)
Arkansas	Graduated	1-6.5%[2]	AR Code § 26-51-205 (2016)

[1] **Alaska:** If the taxable income is, then the tax is:
Less than $25,000: zero
$25,000 but less than $49,000: 2% of the taxable income over $25,000;
$49,000 but less than $74,000: $480 plus 3% of the taxable income over $49,000
$74,000 but less than $99,000: $1,230 plus 4% of the taxable income over $74,000
$99,000 but less than $124,000: $2,230 plus 5% of the taxable income over $99,000
$124,000 but less than $148,000: $3,480 plus 6% of the taxable income over $124,000
$148,000 but less than $173,000: $4,920 plus 7% of the taxable income over $148,000
$173,000 but less than $198,000: $6,670 plus 8% of the taxable income over $173,000
$198,000 but less than $222,000: $8,670 plus 9% of the taxable income over $198,000
$222,000 or more: $10,830 plus 9.4% of the taxable income over $222,000

[2] **Arkansas:** (a) Every corporation organized under the laws of this state shall pay annually an income tax with respect to carrying on or doing business on the entire net income of the corporation, as now defined by the laws of the state of Arkansas, received by such corporation during the income year, on the following basis:
(1) On the first $3,000 of net income or any part thereof: 1%
On the second $3,000 of net income or any part thereof: 2%
On the next $5,000 of net income or any part thereof: 3%
On the next $14,000 of net income or any part thereof: 5%
On the next $75,000 of net income or any part thereof, but not exceeding $100,000: 6%
(2) On net income exceeding $100,000, a flat rate of 6 ½% shall be applied to the entire net income.
(b) Every foreign corporation doing business within the jurisdiction of this state shall pay annually an income tax on the proportion of its entire net income as now determined by the income tax laws of Arkansas, on the following basis:
(1) On the first $3,000 of net income or any part thereof: 1%
On the second $3,000 of net income or any part thereof: 2%
On the next $5,000 of net income or any part thereof: 3%
On the next $14,000 of net income or any part thereof: 5%
On the next $75,000 of net income or any part thereof, but not exceeding $100,000: 6%
(2) On net income exceeding $100,000, a flat rate of 6 ½% shall be applied to the entire net income.

State	Flat tax or graduated rates	Corporate tax rate	State law source
California	Flat	8.84%	CA Rev & Tax Code § 23151(e) (2016)
Colorado	Flat	4.63%	CO Rev Stat § 39-22-301(1)(d)(I)(I) (2016)
Connecticut	Flat	7.5%[3]	CT Gen Stat §12-214(a)(1), 12-214(b)(7)(A), 12-214(b)(8)(A) (2015) The 20% surcharge pushes 7.5% to 9% in 2017, but drops to 10% surcharge in 2018 (meaning an 8.25% rate in 2018).
Delaware	Flat	8.7%	DE Code § 1902(a) (2016)
District of Columbia	Flat	9% in 2017, 8.25% in 2018	DC Code § 47-1807.02(a)(7), (a)(8) (2016)
Florida	Flat	5.5%	FL Stat § 220.11(2) (2016)
Georgia	Flat	6%	GA Code § 48-7-21 (2016)
Hawaii	Graduated	4.4-6.4%[4]	HI Rev Stat § 235-71 (2016)
Idaho	Flat	7.4%	ID Code § 63-3025 (2016)
Illinois	Flat	7%[5]	ILCS Chapter 35 § 5/201(b)(13) & (14) (2016)
Indiana	Flat	6.25[6]	IN Code § 6-3-2-1(b)(6 through 11) (2016)
Iowa	Graduated	6-12%[7]	IA Code § 422.33(1) (2016)

[3] **Connecticut:** Tax consists of a tax of 7.5%, plus a surcharge of 20% of the basic tax. The 20% surcharge is scheduled to apply only through 2017, dropping to 10% in 2018. There is exception to the surcharge for companies with gross income below $100,000,000 annually, but the exception does not apply to taxable members of certain combined groups (CT Gen Stat §12-214(b)(8)(B)).

[4] **Hawaii:** The tax on all taxable income shall be at the rate of 4.4% if the taxable income is not over $25,000; 5.4% if over $25,000, but not over $100,000; and 6.4% on all over $100,000.

[5] **Illinois:** The 7% rate applies for taxable year beginning on or after 7/1/17.

[6] **Indiana:** The 6.25% rate applies for taxable years beginning after 6/30/16, and before 7/1/17. For taxable years beginning after 6/30/17, and before 7/1/18, the rate is 6%. For subsequent fiscal years, the rate drops by ¼ of 1% in each of the following three years, then is lowered to 4.8% for taxable years beginning after 6/30/21.

[7] **Iowa:** A tax is imposed annually upon each corporation doing business in this state, or deriving income from sources within this state, in an amount computed by applying the following rates of taxation to the net income received by the corporation during the income year:
a. On the first $25,000 of taxable income, or any part thereof: 6%.
b. On taxable income $25,000-$100,000 or any part thereof: 8%.
c. On taxable income $100,000-$250,000 or any part thereof: 10%.
d. On taxable income $250,000 or more: 12%.

State	Flat tax or graduated rates	Corporate tax rate	State law source
Kansas	Graduated	4% + 3% surtax over $50K[8]	KS Stat § 79-32,110(c) (2016)
Kentucky	Graduated	4-6%[9]	KY Rev. Stat. § 141.040(6) (2016)
Louisiana	Graduated	4-8%[10]	LA Rev Stat § 47:287.12 (2016)
Maine	Graduated	3.5-8.93%[11]	36 ME Rev Stat § 5200 (2016)
Maryland	Flat	8.25%	MD Tax-Gen Code § 10-105(b) (2016)
Massachusetts	Flat +	8% plus $2.60 per $1,000 of tangible property or net worth (as defined)	MA Gen. L Chapter 63 § 39(a) (2016)
Michigan	Flat	6%	MI Comp L § 206.623(1) (2016)
Minnesota	Flat +	9.8% plus surtax up to $9,770 based on apportion-ment factors and 5.8% alternative minimum tax	MN Stat § 290.06, Subd.1; 290.0922, Subd.1 (2016) See also Minn. Stat. § 290.0922; Minn. Stat. § 290.0921 (alternative minimum tax); Minn. Stat. § 290.01, Subd. 4 (definitions).

[8] **Kansas**: (c) Corporations: A tax is hereby imposed upon the Kansas taxable income of every corporation doing business within this state or deriving income from sources within this state. Such tax shall consist of a normal tax and a surtax and shall be computed as follows:
(1) The normal tax shall be in an amount equal to 4% of the Kansas taxable income of such corporation; and
(2) (A) For tax year 2008, the surtax shall be in an amount equal to 3.1% of the Kansas taxable income of such corporation in excess of $50,000;
(B) For tax years 2009 and 2010, the surtax shall be in an amount equal to 3.05% of the Kansas taxable income of such corporation in excess of $50,000; and
(C) For tax year 2011, and all tax years thereafter, the surtax shall be in an amount equal to 3% of the Kansas taxable income of such corporation in excess of $50,000.

[9] **Kentucky:** For taxable years beginning on or after 1/1/07, the following rates apply:
(a) 4% of the first $50,000 of taxable net income;
(b) 5% of taxable net income over $50,000 up to $100,000;
(c) 6% of taxable net income over $100,000.

[10] **Louisiana:** The tax to be assessed, levied, collected, and paid upon the Louisiana taxable income of every corporation shall be computed at the rate of:
(1) 4% upon the first $25,000 of Louisiana taxable income
(2) 5% upon the amount of Louisiana taxable income above $25,000 but not in excess of $50,000.
(3) 6% on the amount of Louisiana taxable income above $50,000, but not in excess of $100,000.
(4) 7% on the amount of Louisiana taxable income above $100,000, but not in excess of $200,000.
(5) 8% on all Louisiana taxable income in excess of $200,000.

[11] **Maine**: If the income is, the tax is:
Not over $25,000: 3.5% of the income
$25,000 but not over $75,000: $875 plus 7.93% of the excess over $25,000
$75,000 but not over $250,000: $4,840 plus 8.33% of the excess over $75,000
$250,000 or more: $19,418 plus 8.93% of the excess over $250,000

State	Flat tax or graduated rates	Corporate tax rate	State law source
Mississippi	Graduated	3-5%; zero bracket phase-in begins in 2018[12]	MS Code § 27-7-5(1) (2016)
Missouri	Flat	6.25%	MO Rev Stat § 143.071 (2016)
Montana	Flat	6.75% (7% for "water's edge election")	MT Code § 15-31-121 (2015)
Nebraska	Graduated	5.58% – 7.81%[13]	NE Code § 77-2734.02(1)(b) (2016)
Nevada	N/A	No corporate tax	N/A
New Hampshire	Flat	8.2% in years ending 12/31/17 or later; 7.9% ending 12/31/18 or later	NH Rev Stat § 77-A:2 (2016)
New Jersey	Flat	9%[14]	NJ Rev Stat § 54:10A-5(c)(1) (2016)
New Mexico	Graduated	4.8-6.2%[15]	NMSA 1978 § 7-2A-5 (2016)

[12] **Mississippi**:

(a) (i) Through calendar year 2017, on the first $5,000 of taxable income, or any part thereof, the rate shall be 3%;

(ii) For calendar year 2018, on the first $1,000 of taxable income there shall be no tax levied, and on the next $4,000 of taxable income, or any part thereof, the rate shall be 3%;

(iii) For calendar year 2019, on the first $2,000 of taxable income there shall be no tax levied, and on the next $3,000 of taxable income, or any part thereof, the rate shall be 3%;

(iv) For calendar year 2020, on the first $3,000 of taxable income there shall be no tax levied, and on the next $2,000 of taxable income, or any part thereof, the rate shall be 3%;

(v) For calendar year 2021, on the first $4,000 of taxable income there shall be no tax levied, and on the next $1,000 of taxable income, or any part thereof, the rate shall be 3%;

(vi) For calendar year 2022 and all taxable years thereafter, there shall be no tax levied on the first $5,000 of taxable income;

(b) On taxable income in excess of $5,000 up to and including $10,000, or any part thereof, the rate shall be 4%; and

(c) On all taxable income in excess of $10,000, the rate shall be 5%.

[13] **Nebraska:** For taxable years beginning or deemed to begin on or after 1/1/13, at a rate equal to 5.58% on the first $100,000 of taxable income and at the rate of 7.81% on all taxable income in excess of $100,000.

[14] **New Jersey**: 9% for corporations with net income exceeding $100,000. Certain small businesses with income below $100,000 but over $50,000 are subject to a rate of 7½%, and for income of $50,000 or less, a rate of 6½%.

[15] **New Mexico**: Net income below $500,000: 4.8%. For net income over $500,000, the rate is 6.2% in 2017 and 5.9% in 2018. Different rates and a third bracket for income over $1 million applied prior to 2017.

State	Flat tax or graduated rates	Corporate tax rate	State law source
New York	Flat	6.5%[16]	NY Tax L § 210(1)(a); NY Tax L § 210(1)(a)(vi) (2016)
North Carolina	Flat	3% starting in 2017	NC Gen Stat § 105-130.3 (2017)
North Dakota	Graduated	1.41–4.31%[17]	ND Cent Code § 57-38-30, 57-38.4-042 (2016)
Ohio	N/A	No corporate tax	N/A
Oklahoma	Flat	6%	68 OK Stat § 2355(E) (2016)
Oregon	Graduated	6.6-7.6%[18]	OR Rev Stat § 317.061 (2015)
Pennsylvania	Flat	9.99%	72 P.S. § 7402(b) (2016)
Rhode Island	Flat	7%	RI Gen L § 44-11-2.1 (2016)
South Carolina	Flat	5%	SC Code § 12-6-530 (2016)
South Dakota	N/A	No corporate tax	N/A
Tennessee	Flat	6.5%	TN Code § 67-4-2007(a) (2016)
Texas	Flat	Retail or wholesale .375% of taxable margin Others .75% of taxable margin	TX Tax Code § 171.002 (2015)
Utah	Flat	5%	UT Code § 59-7-104 (2016)
Vermont	Graduated	6-8.5%[19]	32 V.S.A. § 5832 (2016)
Virginia	Flat	6%	VA Code § 58.1-400 (2016)
Washington	N/A	No corporate tax	N/A
West Virginia	Flat	6.5%	WV Code § 11-24-4(8) (2016)
Wisconsin	Flat	7.9%	WI Stat. § 71.27 (2016)
Wyoming	N/A	No corporate tax	N/A

[16] **New York**: Imposes its income tax rate on a business's "business income base," as defined in the statute. For certain small businesses and manufacturing, this may result in a different rate, or no tax in the case of certain manufacturing businesses.

[17] **North Dakota**: 1.41% on the first $25,000 of income, plus 3.55% on income exceeding $25,000 but not exceeding $50,000, plus 4.31% on income exceeding $50,000.

[18] **Oregon**: 6.6% of the first $1 million of taxable income, then 7.6% of any taxable income exceeding $1 million.

[19] **Vermont**: 6% on 0 – $10,000, plus 7% on over $10,000 to $25,000, plus 8.5% on over $25,000. Certain minimums apply (see 32 V.S.A. § 5832 (2)(A)), and digital business entities (as defined at 32 V.S.A. § 5832a) are subject to a lower tax.

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Conversation starters

How to engage clients on tax management opportunities with life insurance and annuities

INCOME NOW

Here are several ideas for approaching tax topics with clients.

TOPIC	OPENING QUESTIONS	ISSUES	NEXT STEPS FOR ADVISORS
Capital gains taxes	– Do they trade equities in a "play" account?	– Understanding the magnitude of growth needed to offset capital gains taxes	– Discuss investments less susceptible to capital gains taxation, such as index funds and annuities
State of residency	– Do they own property in high tax areas? – Are they likely to retire in their current state? – Are they paying the Alternative Minimum Tax (AMT)?	– Do they know how the AMT treats various forms of income/interest?	– Work with your client and their CPA on different tax scenarios – Consider alternative ways to defer taxable income such as life insurance or a deferred annuity
Retirement plans	– Do they plan to change their lifestyle significantly? – Are they going to relocate and buy property? – Will their retirement transition include selling their current home or a business?	– A major liquidity event such as the sale of a business may require tax planning – Timing of a sale, especially if capital gains taxes are part of tax reform	– A charitable remainder trust and life insurance may be explored for the proceeds of a business or home sale
Leaving a legacy	– Do they want to pass down assets to the next generation? – Do they want to provide financial support for their children while protecting their legacy?	– Do they need the income from their assets to cover living expenses? – The state may levy transfer or inheritance taxes that their heirs may need to pay – Do they want their gifts to serve a purpose?	– Life insurance, variable and fixed annuities can provide tax-deferred growth opportunities and a guaranteed death benefit – Charitable remainder trusts and charitable lead trusts can provide financial benefits while helping optimize charitable giving
Retirement income	– Do they know the tax basis for all their assets and have a clear plan for drawing them down for income?	– Without a steady paycheck, clients have to think differently about how they plan and pay for everyday expenses, major purchases, health emergencies, long-term care expenses, and the needs of adult children or grandchildren	– Some tax exposure, such as paying for long-term care expenses, can be managed with certain types of life insurance and annuity-based hybrid solutions – For tax-efficient cash flow, consider the features and benefits of annuities and life insurance

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[1] Managing Long-term Care Risks," Hanover Research and Lincoln Financial Group, October 2014; https://www.lfg.com/LincolnPageServer?LFGPage=/lfg/lfgclient/rna/rsrch/index.html.

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Get ready for a tax-efficient retirement

What you can do today to help protect your retirement income

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Keep more of what you earned

If you're concerned about taxes, you're not alone. More than one in four Americans we surveyed said that thinking about taxes keeps them up at night.[1] Tax risk can affect you today and could potentially erode your retirement income. The good news is that you can make solid decisions now to benefit you in the future.

Talk with a financial professional about planning for a more secure financial future by adding tax-efficient assets, such as cash value life insurance, to your retirement portfolio. Cash value life insurance offers more than death benefit protection and can enhance a well-rounded retirement portfolio. It could help you accumulate savings on a tax-deferred basis. When you want to take retirement income, you can have a tax-efficient financial resource by taking income tax-free loans or withdrawals from your policy.[2]

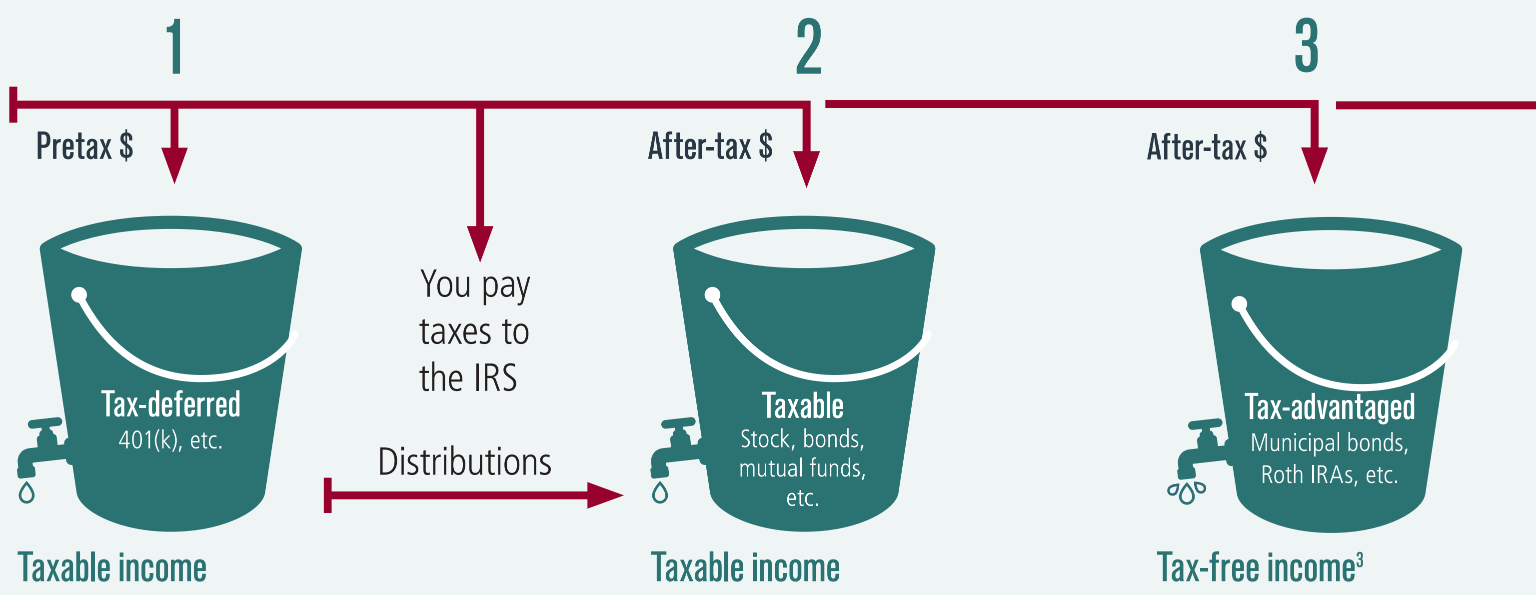
Today, your retirement portfolio is probably a mix of assets that fall into three categories, or buckets:

1 **Tax-deferred contributions,** which are pretax dollars invested in IRAs, and employer-sponsored plans, such as a 401(k). The challenge is that you have contribution limits.

2 **Taxable investments,** which are after-tax dollars invested in stocks, bonds, mutual funds, and other investments in your retirement portfolio. There are no contribution limits.

3 **Tax-advantaged investments,** which are after-tax dollars invested in municipal bonds or Roth IRAs. If your modified adjusted gross income (MAGI) exceeds $133,000 ($196,000 joint), you are ineligible for a Roth.

You save for retirement.



How taxes may affect your income if you retire:

Before age 59½	After age 59½	At age 62	At age 65	At age 70½
You pay ordinary income tax and a 10% penalty.[4]	Your tax-deferred assets become taxable when withdrawn.	85% of your Social Security benefits are taxed if you have too much MAGI.[5]	Your Medicare Part B costs could increase to $428.60/month if you have too much MAGI.[6]	You must take required minimum distributions, from tax-deferred assets which adds to your tax exposure.

Sources: Internal Revenue Bulletin 2016-45 (11/7/16), Rev. Proc. 2016-55, IRS.gov; "Medicare 2016 & 2017 Costs at a Glance," Medicare.gov; U.S. Social Security Administration, www.SSA.gov; Centers for Medicare & Medicaid Services, CMS.gov.

[1]Whitman Insight Strategies on behalf of Lincoln Financial Group, 2016 M.O.O.D. of America Survey, August 16, 2016.

[2]Income tax-free loans and withdrawals will reduce the policy's cash value and death benefit. See the following page for important information regarding loans and withdrawals.

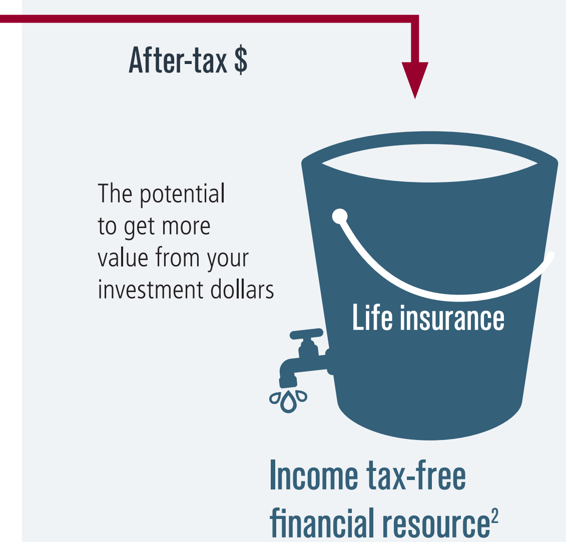
Tax laws change. Start planning now to help protect your retirement income from taxes.

	If your taxable income is over		
Tax provision	**Single filers**	**Joint filers**	**2017 top tax rate**
Income tax	$418,400	$470,700	39.6%
Medicare payroll tax: additional tax on unearned income	$200,000	$250,000	0.90%
Capital gains tax: long-term capital gains and qualified dividends	$418,400	$470,700	20%
Unearned income Medicare contribution tax (UIMCT): applies to realized investment income and gains	$200,000	$250,000	3.80%
Itemized deductions: Reduces Schedule A deductions by up to 80%	$261,500	$313,800	Reduce by 3% of every dollar of your taxable income above the thresholds
Personal exemptions: Phaseout $4,050/personal tax exemption	$261,500	$313,800	Full phaseout if your income exceeds $384,000/$436,300 for joint filers
Social Security benefits	$34,000	$44,000	Up to 85% is treated as ordinary income

Your Medicare Part B premiums could increase

Medicare premiums are also affected by your income. As it increases, so do those premiums. Premiums can increase to $428.60 per month for single filers with 2015 income of more than $214,000, or $428,000 for joint filers.

Plan for a tax-efficient retirement with Lincoln cash value life insurance.



Add Lincoln life insurance to your portfolio to help protect your savings and gain these advantages:

- ✓ An income tax-free death benefit for your beneficiaries
- ✓ Tax-deferred growth opportunities
- ✓ An income tax-free financial resource for retirement[3]
- ✓ No penalties for cash values taken before age 59½

No matter when you retire, you can take income through policy loans and withdrawals without affecting your:

- ✓ Income tax bracket
- ✓ Medicare premiums
- ✓ Social Security tax
- ✓ Capital gains
- ✓ MAGI

What cash value life insurance could do for you when you retire:

Before age 59½	After age 59½	At age 62	At age 65	At age 70½
You have income tax-free distributions without penalties.[2]	You could access income tax-free funds[2]	There's no effect on your Social Security benefits.	There's no effect on Medicare Part B premiums.	You are not required to take minimum distributions.

[3]Income tax-free subject to certain requirements. Could affect modified adjusted gross income.
[4]The 10% penalty is applicable for withdrawals from qualified plan and IRA accounts before age 59½.
[5]Individuals with MAGI above $34,000; $44,000 filing jointly.
[6]Individuals with MAGI above $85,000; $170,000 filing jointly.

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Take charge of your future

Ask a financial professional how Lincoln cash value life insurance could enhance your retirement strategy.

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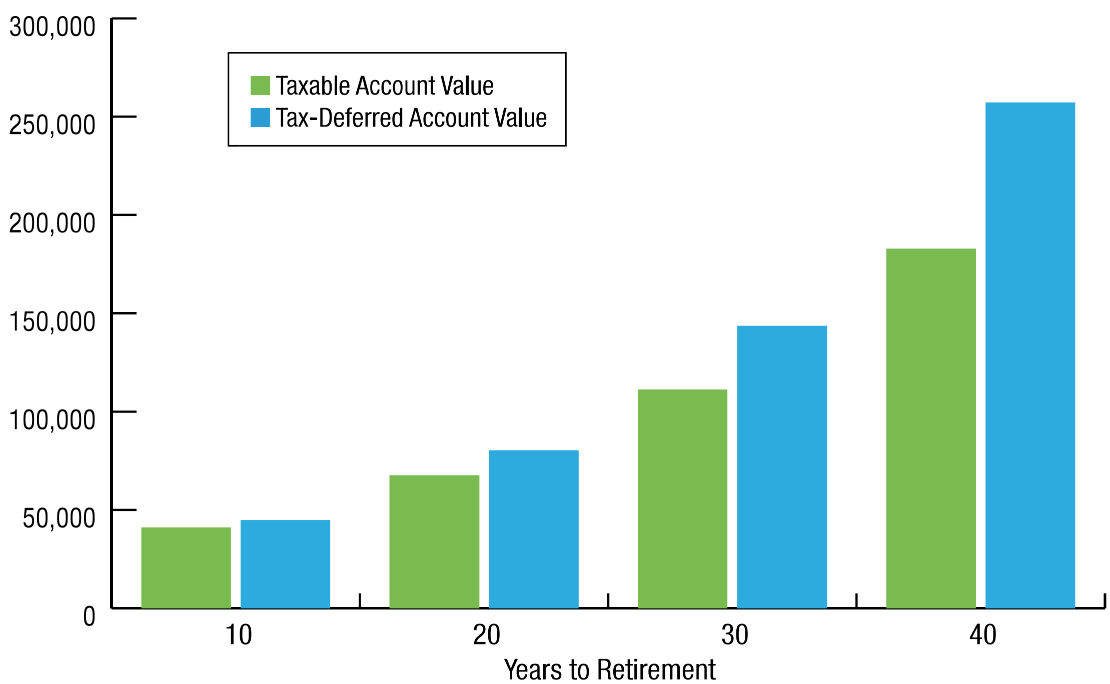
Benefits of Deferring Taxes

This hypothetical illustration shows $25,000 invested in both a taxable and tax-deferred account. The difference in value is not that significant during the first 10 years; however, the tax-deferred account value grows substantially more than the taxable account during subsequent years.



Each account assumes a 6% annual rate of return and no withdrawals. Taxable account assumes a federal income tax rate of 28% and a capital gains tax rate of 15%.

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The Power of Tax Deferral

What is the real rate of return on your taxable account?

Typically, in a taxable account your earnings (such as interest, dividends, and capital gains) create a taxable event that would need to be paid each year to the IRS. Paying taxes every year on your earnings limits the growth potential of your taxable account. For example, if your tax bracket is 25% and you earn a 3.0% annual rate of return in a taxable account, your after-tax return would be 2.25%.

Real Rate of Return (after taxes)

	Taxable investment rate								
Federal Tax Bracket	10.00%	9.00%	8.00%	7.00%	6.00%	5.00%	4.00%	3.00%	2.00%
15%	8.50%	7.65%	6.80%	5.95%	5.10%	4.25%	3.40%	2.55%	1.70%
25%	7.50%	6.75%	6.00%	5.25%	4.50%	3.75%	3.00%	2.25%	1.50%
28%	7.20%	6.48%	5.76%	5.04%	4.32%	3.60%	2.88%	2.16%	1.44%
33%	6.70%	6.03%	5.36%	4.69%	4.02%	3.35%	2.68%	2.01%	1.34%
35%	6.50%	5.85%	5.20%	4.55%	3.90%	3.25%	2.60%	1.95%	1.30%

Which tax rate applies to you?

2015 Federal Income Tax Rates

Rate	Single Return	Married Joint Return	Married Separate Return	Head of Household Return
10%	$0 - $9,225	$0 - $18,450	$0 - $9,225	$0 - $13,150
15%	$9,226 - $37,450	$18,451 - $74,900	$9,226 - $37,450	$13,151 - $50,200
25%	$37,451 - $90,750	$74,901 - $151,200	$37,451 - $75,600	$50,201 - $129,600
28%	$90,751 - $189,300	$151,201 - $230,450	$75,601 - $115,225	$129,601 - $209,850
33%	$189,301 - $411,500	$230,451 - $411,500	$115,226 - $205,750	$209,851 - $411,500
35%	$411,501 - $413,200	$411,501 - $464,850	$205,751 - $232,425	$411,501 - $439,000
39.60%	$413,201 and above	$464,851 and above	$232,426 and above	$439,001 and above

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Protect Tomorrow. Embrace Today.™

The Power of Tax Deferral

Just how much of a difference can a tax-deferred annuity make?

When compared to a taxable account a tax-deferred annuity has increased earning power. With a tax-deferred annuity you are earning compounding interest on your principal and accrued interest, on money that would have otherwise been paid to the IRS in taxes. To see this earning power let's look at this example, if you're in a 25% tax bracket and you are earning a 3.0% annual rate of return in a tax-deferred annuity, you would need to earn a 4.0% annual rate of return in a taxable account.

Let the advantages of a tax-deferred annuity help increase the earning potential for your future. Contact your financial advisor for more information.

Taxable account equivalent rate to a tax-deferred annuity rate

	Federal Tax Bracket				
Tax-Deferred Annuity Rate	15%	25%	28%	33%	35%
10.00%	11.76%	13.33%	13.89%	14.93%	15.38%
9.00%	10.59%	12.00%	12.50%	13.43%	13.85%
8.00%	9.41%	10.67%	11.11%	11.94%	12.31%
7.00%	8.24%	9.33%	9.72%	10.45%	10.77%
6.00%	7.06%	8.00%	8.33%	8.96%	9.23%
5.00%	5.88%	6.67%	6.94%	7.46%	7.69%
4.00%	4.71%	5.33%	5.56%	5.97%	6.15%
3.00%	3.53%	4.00%	4.17%	4.48%	4.62%
2.00%	2.35%	2.67%	2.78%	2.99%	3.08%
1.00%	1.18%	1.33%	1.39%	1.49%	1.54%

The charts on this flyer are for illustrative purposes only and do not indicate the performance of any individual annuity. These tables do not include any fees that may be associated with the purchase of an annuity contract, which may increase the returns needed. Past performance does not guarantee future results.

The tax treatment of annuities is subject to change. Neither Protective Life nor its representatives offer legal or tax advice. Withdrawals of earnings from an annuity will be subject to income tax and may be subject to a 10% IRS penalty tax if taken before age 59½. Changes in tax rates and tax treatment of earnings may impact results. Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as an IRA.

Protective Life is not registered as an investment advisor and is not providing investment advice. Clients electing to follow these retirement income strategies should consult their investment, legal and tax advisors who can help decide if the strategies are right for them.

Annuities are long-term investments intended for retirement planning and may involve market risk and the possible loss of principal. Investments in annuities are subject to fees and charges from the insurance company and the investment managers.

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