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Advanced Markets

Do you have clients like this?

Many of your clients will pay less in taxes under the Tax Cuts and Jobs Growth Act of 2018, the first major tax legislation since 2012. That extra income sounds attractive and may boost the U.S. economy, but it may also help your clients meet their key goals:

- Saving for retirement
- Funding a child's education
- Protecting their family against the loss of income from a breadwinner
- Planning for long-term care expenses

If your clients are business owners, that extra income may help protect them against the loss of a key person, fund a business continuation agreement or reward key employees.

Your clients' tax professional will advise them on their situation and what the new tax code means for them. Here are some examples of common client situations you may run into, where clients may be paying less in income tax in 2020 compared to 2017, before the new tax law, and recommendations for how those savings may be put to use.

Meet Bob and Mary

- **Ages 31 and 29, respectively**
- **Annual income of $74,000**
- Receive tax deductions for mortgage interest, state and local taxes and charitable contributions

Bob and Mary own their own home and pay $800 in mortgage and property taxes. Their total deductions were not more than the standard deduction so they didn't itemize.

Bob and Mary are a family that may do well and may pay less income tax in 2020 due to:

- Increased standard deduction to $24,000
- Decreased tax rate
- Increase in the child tax credit

If they pay $1,000 to $4,000 less in taxes, consider:

- Roth IRA to help retirement
- 529 plan for college funding
- Term insurance for family protection

Meet Jim and Sue

- **Ages 42 and 41, respectively**
- **Annual income of $440,000**
- Receive tax deductions for mortgage interest, state and local taxes and charitable contributions

Jim and Sue are both engineers living in New Jersey paying $13,000 per year in property taxes. Based on their income and the amount they pay in state, local and property taxes, they were subject to the Alternative Minimum Tax (AMT). They know they'll only be able to deduct $10,000 of their state, local and property taxes in 2020, but the loss of the deduction may be offset by the higher AMT exemptions. They are maximum funding their 401(k) plans, but know they need to save more for retirement.

Jim and Sue may pay less in tax due to:

- Decrease in their tax rate
- Increase in the AMT exemption amount

If they pay $9,000 to $12,000 less in taxes, consider:

- After-tax savings plan using VUL Optimizer℠ for additional retirement accumulation
- Adding the Long-Term Care Services℠ Rider (LTCSR) for additional protection should they become LTC-impaired
- 529 plan for children
- Permanent life insurance for income protection

Meet Jane

- **Single**
- **Age 33**
- **Annual income of $126,000**
- Receives tax deductions for student loan interest and charitable contributions

Jane is a young professional living in New York who rents her apartment. Other than rent, her largest monthly expense is her student loan. She contributes just enough to her company's 401(k) plan to get the match they offer, but she has no other savings.

Jane may pay less in tax due to:

- Increase in the standard deduction
- Decrease in her tax rate

If she pays $4,000 to $6,000 less in taxes, consider:

- After-tax savings fund for liquidity
- Permanent policy with the LTCSR to offer her additional accumulation and LTC protection

Meet Bill and Cathy

- **Ages 54 and 55, respectively**
- **Annual income of $220,000**
- Receive tax deductions for mortgage interest, state and local taxes and charitable contributions

Bill and Cathy live in Pennsylvania and just saw their youngest child graduate from college and their oldest have their first grandchild. They pay $8,000 in mortgage interest, make $4,000 in charitable contributions and pay $5,000 in state and local taxes. They itemized on their 2017 taxes because their deductions totaled $17,000 and the standard deduction was $13,000. The standard deduction in 2020 will be $24,800. Bill and Cathy are happy with the amount they have saved for retirement in their 401(k) plans. They have term insurance policies and no long-term care insurance.

Bill and Cathy may pay less in tax due to:

- Increase in the standard deduction
- Decrease in her tax rate

If they pay $9,000 to $12,000 less in taxes, consider:

- An IUL Protect policy with the LTCSR for each of them
- After-tax savings plan
- 529 plan for their new grandchild

Meet Frank and Joe

- **Ages 52 and 46, respectively**
- **Construction business partners**
- **Annual income of $310,000**
- Receive tax deductions for business expenses, mortgage interest, state and local taxes and charitable contributions

Frank's business is set up as a partnership. His share of the business profit was $310,000 in 2017. His wife, Becky (age 55), left her job in 2016 to be a full-time caregiver for her mother.

Frank and Becky may pay less in tax due to:

- Decrease in their tax rate
- Deduction for 20% of "qualified business income" from a pass-through entity
  - A 20% deduction on $310,000 is $62,000. At a 33% tax rate, that's more than $20,000 in actual tax savings

If they pay $20,000 to $24,000 less in taxes, consider:

- After-tax savings plan using VUL Optimizer℠
- Buy-sell agreement between Frank and Joe funded with permanent life insurance. They may want to consider our retirement buy-sell to help fund both the buy-sell and their own retirement
- An IUL Protect policy with the LTCSR for Frank and Becky's own LTC protection

Meet Julie and Mark

- **Ages 49 and 51, respectively**
- **Annual income of $610,000**
- Receive tax deductions for business expenses, mortgage interest, state and local taxes and charitable contributions

Julie and Mark are co-owners of their medical practice and they employ a small staff. They have a daughter in medical school and a son in college. They know their retirement savings aren't where they should be at this stage in life. The practice is taxed as a pass-through entity and is considered a service business under the new tax law. Based on their income, Julie and Mark cannot deduct any of their pass-through business income.

Still, they may pay less in tax due to:

- Decrease in their tax rate

If they pay $25,000 to $30,000 less in tax, consider:

- After-tax savings plan using VUL Optimizer℠ or COIL Institutional Series℠ 160 as members of a white-collar professional association
- IUL Protect with the LTCSR

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