An 8-year window for pass-through owners

Ideal client

- Self-employed business owners
- Owners of S corporations, LLCs and partnerships receiving K-1 income
- Professionals such as doctors, lawyers, CPAs, etc., receiving K-1 income — limits to income — see details below

Saving for retirement is key for most business owners and professionals. Its need is now magnified — with all the comings and goings in Washington — with talk of reducing 401(k) contributions — with other threats to retirement benefits. Now is the time to become more self-sufficient in planning for your retirement.

The new Tax Cut and Jobs Act gives sole proprietors and pass-through entity owners a special tax benefit, but one with a narrow window. For 8 years starting in 2018, most owners can deduct up to 20% of their business income. It's an unprecedented gift to help fund retirement.

Take your tax-free income and relay it into a tax-advantaged cash value life insurance policy. Grow your cash values tax-free and receive tax-free income in retirement.[1]

Amy Smith

- **Owns a chain of stores**
- **Average income $300,000**

How this works for Amy

Amy owns a chain of stores across northern Ohio. The business, an LLC, is strong and she typically makes $300,000 a year via her K-1. Working with her CPA, she learns of a special benefit under the 2017 Tax Act. Through 2025, sole proprietors and pass-through business owners can deduct up to 20% of their business income from the 1040 income tax calculation. She talks to Paul, her financial professional, and he recommends life insurance because it offers both death benefit protection for her young family and a cash value policy that will let her build tax-free income that can later help supplement her income.

Carl Johnson

- **Professional photographer**
- **Average income $350,000**

How this works for Carl

Carl is a photographer who, after expenses, brings in about $350,000/year through freelance work. He operates as an LLC and knows he needs to save more toward retirement. Joan, his financial professional, shows him how the new Tax Act offers him a limited window for tax deductions, but he is over a $315,000 limit for married individuals. He uses the ability to expense new equipment ($25,000) to bring his Schedule C down to $325,000. He then sets up a qualified retirement plan and is able to contribute $10,000 to it, bringing his income down to $315,000. This leaves him the ability to deduct up to $63,000 ($315,000 x 20%). Joan then shows him how life insurance can help protect his family, offer the ability to access his policy in the event of certain impairments and build cash values. He can then draw down on those cash values to help supplement his retirement.

For both Amy & Carl, under the Tax Cut & Jobs Act $300,000 × 20% = $60,000 in tax-free income and $19,200 in tax savings toward a cash value life insurance policy for protection and supplement retirement income.[2]

1 Excessive withdrawals and loans may cause a life insurance contract to fail the definition of life insurance or lapse and trigger unintended tax consequences. Assumes the policy is not a Modified Endowment Contract (MEC).

2 Assumes a 32% tax rate.

How it works

The Tax Cut and Jobs Act of 2017 offers people like you, sole proprietors and small business owners operating as a pass-through entity (LLCs, Sub-S corporations or partnerships), an unprecedented, but limited, opportunity to deduct 20% of your income. There's fine print, but it essentially works as shown in the chart, below.

Income paid into pass-through entities, such as Sub-S corps, LLCs, partnerships

Expenses, purchases, salaries	Planning may involve how to make purchases, depreciation or expensing of assets and a qualified plan to reduce income.
Net income paid to owners via K-1 distributions	Income is allocated to owners, generally based on their percentage of ownership. Other factors may come into play.
20% deduction on K-1 income, BUT...	**Once over $315,000/$157,500 based on marital status household taxable income of $315,000 or $157,500 is the threshold** Household taxable income of $315,000 or $157,500 is the threshold. Tests that apply will vary widely based on the nature of the income. • Manufacturing and other businesses are capped at the greater of 50% W-2 payroll or 2.5% of capital assets • Professional service firms have the deduction phased out[3]

The fine print

How much you have by way of savings, and how much you might contribute to a life insurance policy will vary from person to person. To participate in this approach, you need to have an established life insurance need. The amount of life insurance and the contribution will vary based on many factors, including your life insurance need. The accumulation potential may vary based on the premium for the policy and the insured's medical underwriting.

To be effective, you need to hold the policy until death. A life insurance policy generally takes years to build up a substantial cash value.

Tax-free distributions will reduce the face amount and cash value of a policy. You may need to fund higher premiums in later years to keep the policy from lapsing.

Generally, there are many additional charges associated with a life insurance policy, including but not limited to, a front-end load, monthly administrative charge, cost of insurance charge, additional benefit rider costs and surrender charges.

The amount that can be contributed will also vary from person to person. You'll want to work with your tax advisor to determine how much is a reasonable annual contribution based on their business.

This is only a limited window that expires after December 31, 2025. To take maximum advantage of this window, work with your financial professional to develop a design that optimizes this limited opportunity.

$315,000 for married couples ($157,500 for single tax filers) is the key number.[3]

For many, your K-1 income will be below these amounts. Beyond these amounts there are a complex series of calculations.

For most white-collar professionals, their ability to deduct 20% phases out over the next $100,000 of income over these key numbers.

For other business owners, additional tests apply over these thresholds that are tied to the business' wage income and a portion of the depreciable assets.

Your tax advisor might be able to suggest other tax planning that can help you plan your income and business deductions to help bring your income in line with the $315,000/$157,500 thresholds.

Your tax professional can tell you your approximate tax savings to help steer some of the tax savings toward your retirement savings.

3 Architects and engineers are carved out of the white-collar professional category and receive the same treatment as a manufacturer or business owner.

What have you achieved?

For a short 8-year period, you have a window of opportunity. Everyone might do something different with their tax savings, but you can use these savings to help achieve major planning goals.

Using these tax savings to fund a cash value life insurance policy offers you a way to achieve multiple goals, and at the same time:

- You can protect your family against the risk of an untimely death.
- You can use this tax-free income and savings for a cash value of a life insurance policy to build tax-free retirement savings that, in retirement, can be used to help supplement your income.
- Because you can take tax-free withdrawals and loans from a life insurance policy (if done with proper planning), this policy income has added benefits.
- $10,000 of tax-free income from a life insurance policy can be equivalent of $14,706 taxable income depending on your Federal and State income tax bracket.
- Depending on the riders and other policy features you select, you may also be able to provide for charity or protect against an illness.

Why Equitable?

With a heritage of more than 160 years, Equitable Financial stands among the nation's premier providers of life insurance and annuity products. In addition, Equitable Financial's affiliate, Equitable Financial Life Insurance Company of America, is also a premier provider of life insurance products. While we have grown considerably over the decades, we have never lost sight of our fundamental commitment — helping people build sound financial futures through innovative financial strategies.

Equitable Financial and Equitable America are strong financial companies offering a wide range of financial products that can be selected based on your overall financial needs, time horizon and risk tolerance. Your financial professional will be able to work with you on the most appropriate product.

Equitable Financial and Equitable America offer a range of riders that can be added to most of their life insurance policies (sometimes with an added cost) to additionally tailor a life insurance policy for your needs.

For more information, contact your financial professional or visit equitable.com.

Under current federal tax rules, you generally may take federal income tax-free withdrawals up to your basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy's first 15 years. If the policy is an MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefit and cash value of your life insurance policy and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance your policy may lapse. If the policy lapses, is surrendered or becomes an MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

Please be advised that this brochure is not intended as legal or tax advice. Accordingly, any tax before considering a fixed or variable universal life purchase, all costs of the product should be considered, including, but not limited to, guaranteed and current interest rates, surrender charges, insurance charges, features, benefits and riders in the contract and their charges.

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