Tax Digital Playbook

IDENTIFY AND HELP PLUG THE HOLES IN YOUR LEAKY BUCKET

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Understanding the tax landscape

With federal debt reaching World War II levels, federal deficits in 2024 exceeded 5.6% of GDP. Some projections show federal debt held by the public reaching 166% of GDP by 2054.[1] Historically, tax rates spike, mirroring government spending, and as public debt skyrockets, someone is going to have to pay for it.

Capital gains, estates, and income-producing trusts (e.g., credit shelter trusts, AB trusts, special needs trusts, intentionally defective grantor trusts, and generation-skipping trusts) are and continue to be targets for increased taxation to offset government spending. Proposed tax reforms signal that this trend may be here to stay.

Additionally, the Affordable Care Act adds a 3.8% tax on income* for those making over $200,000 and married couples making over $250,000 annually.[2]

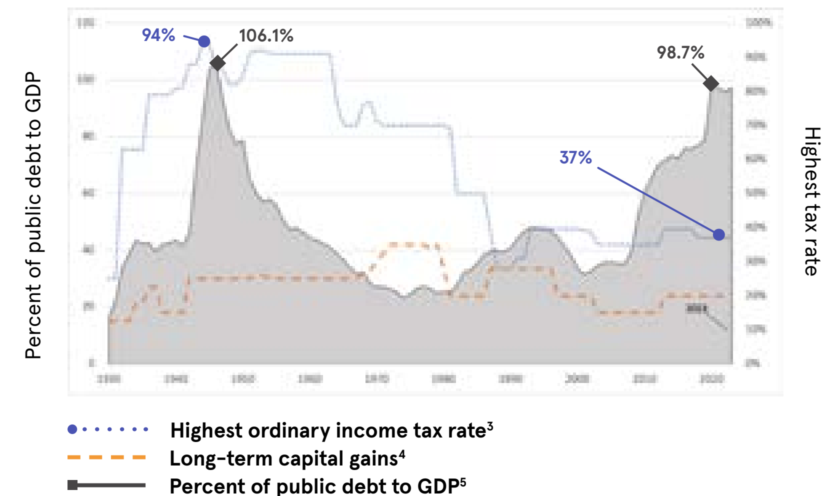
Will you find your savings and investments drained by taxes? Or, are you ready to explore strategies that can help shore up and reduce your overall tax burden?

* Calculated on the lesser of: 1) net investment income, or 2) excess of modified adjusted gross income (MAGI) over the threshold. A taxpayer must have both an excess MAGI and net investment income for the surtax to apply.

[1] Congressional Budget Office, "The Long-term Budget Outlook: 2024-2054," March 2024.

[2] IRS, "Questions and Answers on the Net Investment Income Tax." September 13, 2024.

Historically, tax rates spike to mirror government spending.



Past performance is not a reliable indicator of future outcomes.

[3] Tax Policy Center, "Historical Highest Marginal Income Tax Rates," May 11, 2023.

[4] Mark Luscombe, Wolters Kluwer, "Historical Capital Gains Rates," January 4, 2023.

[5] Congressional Budget Office, "The Budget and Economic Outlook: 2024 to 2034," February 2024.

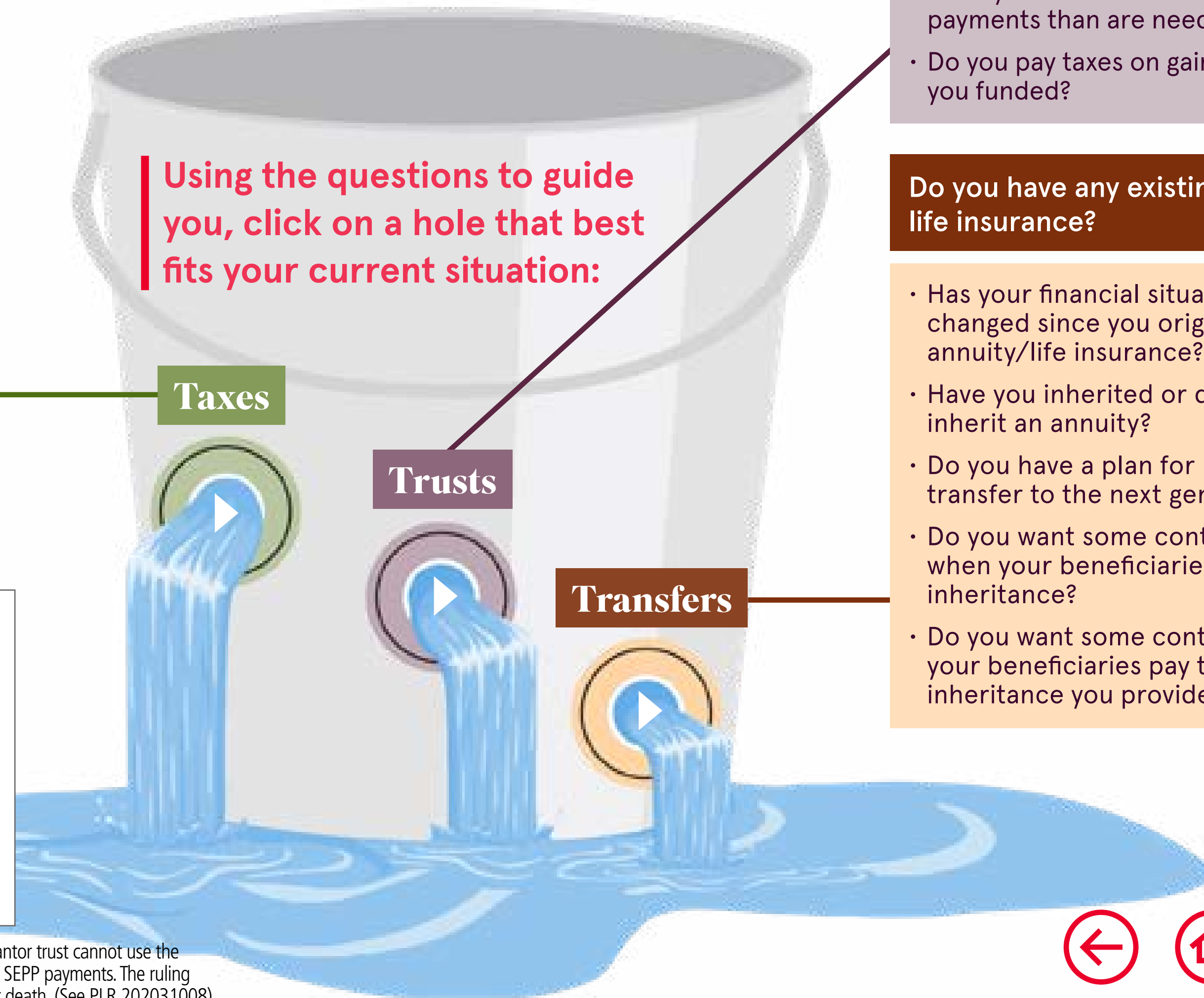
Taxes are like holes in a bucket.

Think of your investment accounts like a bucket that collects your assets, and taxes are like holes draining those assets. The good news is that there are options designed to help you plug these holes and help retain more of your assets.

Do you want to possibly reduce your current tax burden? Are you concerned about future tax law changes?

- Do you consider yourself to be a high-income earner?
- Do you trade or reallocate your taxable (after-tax assets) portfolio?
- Do you have assets like bonds, alternative investments, dividend-paying stocks, mutual funds, or allocation models in your portfolio?
- Do you have after-tax assets set aside for retirement?

What is an annuity? An annuity is a long-term, tax-deferred vehicle designed for retirement. Variable and registered index-linked annuities involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.



Have you developed an estate plan?*

- Do you have an irrevocable trust or a trust with its own trust identification number (TIN)? *(e.g., credit shelter trust, AB trust, generation-skipping trust, intentionally defective grantor trust)*
- Does your trust pay taxes and file a 1041?
- Does your trust make more income payments than are needed by the recipient?
- Do you pay taxes on gains in a trust you funded?

Do you have any existing annuities or life insurance?

- Has your financial situation or have needs changed since you originally purchased the annuity/life insurance?
- Have you inherited or do you think you will inherit an annuity?
- Do you have a plan for how your assets will transfer to the next generation?
- Do you want some control over how and when your beneficiaries receive their inheritance?
- Do you want some control over how/when your beneficiaries pay taxes on the inheritance you provide?

* The IRS issued a private letter ruling ("PLR") holding that a nongrantor trust cannot use the IRC 72(q) exceptions for (1) reaching age 59½, (2) disability, or (3) SEPP payments. The ruling recognized a nongrantor trust may use the IRC 72(q) exception for death. (See PLR 202031008).

Brooke

HIGH-INCOME EARNER **AGE 45**

Brooke just paid her biggest tax bill to the U.S. government ever, and she's not too happy about it. Brooke's high level of taxation is a result of:

- Six-figure married filing jointly income (over $250k modified adjusted gross income [MAGI]), resulting in high federal, state, and net investment income taxes
- Investment account dividends, turnover, and capital gains distributions

Given these factors, Brooke connected with her financial professional to strategize and reallocate funds away from tax-inefficient assets in her investment account to a tax-deferred* variable annuity. Any growth in an annuity is taxed as ordinary income once withdrawals are taken, not before. Allocating a portion of her assets to a variable annuity allows her to maintain exposure to high-turnover funds—ones that are bought and sold frequently by managers—while providing the tax deferral she's used to with her individual retirement account (IRA).

Follow Brooke's pursuit of growth and accumulation, while managing her tax burden. →

Taxes on income and gains from investments

HOLES IN BROOKE'S BUCKET

Click on a hole that best fits your current tax scenario.

Federal, state, and net investment income taxes

Investment account generates gains and distributions

Scenario presented is a hypothetical example for illustrative purposes only. It is provided for informational purposes and is not intended as investment advice or a recommendation. Your individual circumstances may vary. You should consider your individual situation, including your time horizon, risk tolerance, investment objectives, and the need for an annuity before investing.

* Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

FEDERAL, STATE, AND NET INVESTMENT INCOME TAXES

When evaluating your overall retirement plan, it is important to determine with a tax professional which federal income tax bracket you fall under, and if you are filing as single or married.

INCOME TAX 2025*, 1

Married filing jointly:	$0 – $23,850	10%
$23,851	$96,950	$2,385 + 12%
$96,951	$206,700	$11,157 + 22%
$206,701	$394,600	$35,302 + 24%
$394,601	$501,050	$80,398 + 32%
$501,051	$751,600	$114,462 + 35%
$751,601+	–	$202,154.50 + 37%

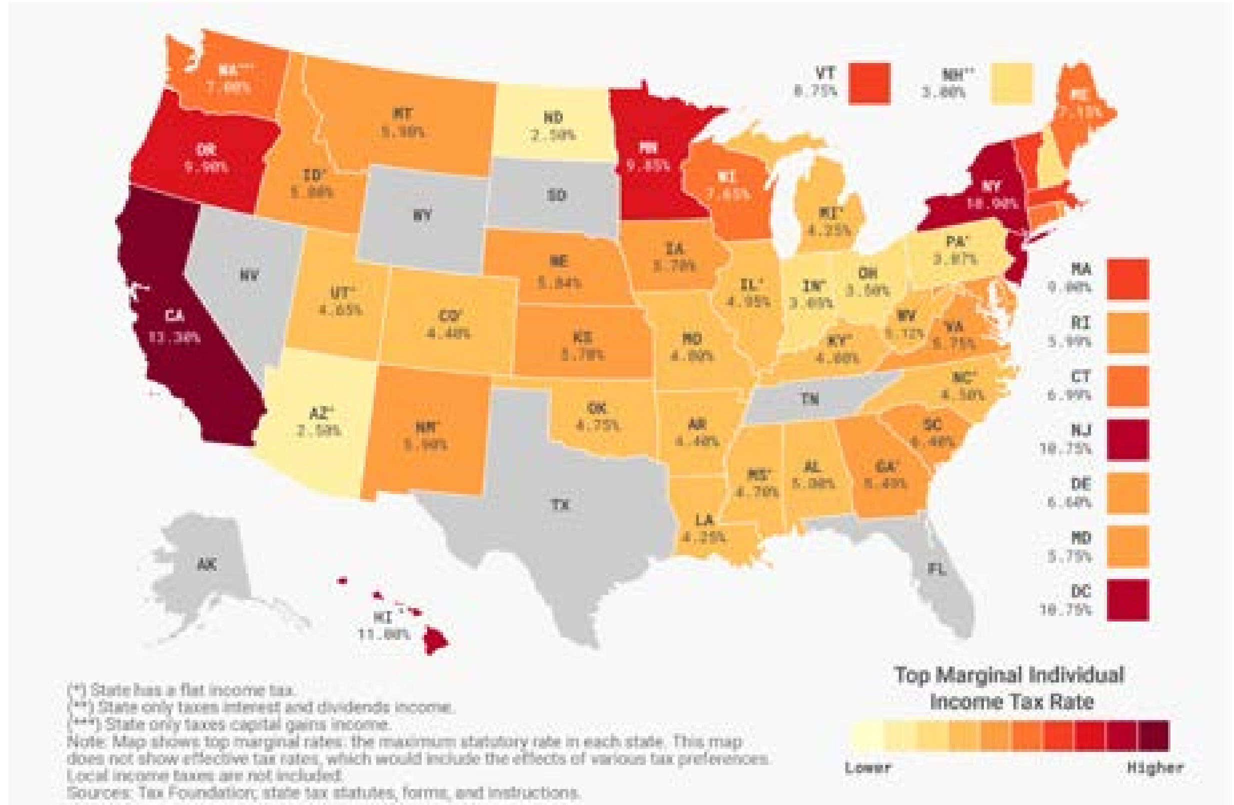
Single:	$0 – $11,925	10%
$11,926	$48,475	$1,192.50 + 12%
$48,476	$103,350	$5,578.50 + 22%
$103,351	$197,300	$17,651 + 24%
$197,301	$250,525	$40,199 + 32%
$250,526	$626,350	$57,231 + 35%
$626,351+	–	$188,769.75 + 37%

* These figures do not account for the standard deduction or any itemized deductions.
[1] IRS, Rev. Proc. 2024-40, 2024.

FEDERAL, STATE, AND NET INVESTMENT INCOME TAXES

Certain states tax income more than others, and some don't have state income tax at all. It is important to determine what rate you will be taxed at depending on which state you currently live and work in.

TOP STATE MARGINAL INDIVIDUAL INCOME TAX RATES, 2024[1]



Note: Map shows top marginal rates: the maximum statutory rate in each state in 2024. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

[1] Andrey Yushkov, Tax Foundation, "State Individual Income Tax Rates and Brackets, 2024," February 20, 2024.

FEDERAL, STATE, AND NET INVESTMENT INCOME TAXES

In addition to understanding your federal and state taxation, you may want to determine whether you have investments that can incur capital gains taxes. Growth in many investments is taxed when the investments are sold. The tax rates can be either long-term capital gains (sold after 12 months of ownership) or ordinary income (sold before 12 months of ownership). Capital gains distributions and dividends, such as those received from mutual funds, are also taxable and may be taxed as either long-term capital gains or ordinary income even if you don't sell any shares of the fund.

CAPITAL GAINS TAX 2025[1, 2]

Single		
Taxable income	1 year or less	Greater than 1 year
$0 to $48,350	Ordinary Income	0%
$48,351 to 533,400	Ordinary Income	15%
$533,401+	Ordinary Income	20%

Married filing jointly		
Taxable income	1 year or less	Greater than 1 year
$0 to $96,700	Ordinary Income	0%
$96,701 to $600,050	Ordinary Income	15%
$600,051+	Ordinary Income	20%

You may also want to determine if you have net investment income, which is income received from your investments. If you have any investment income and modified adjusted gross income (MAGI) over $200k (single) or $250k (married), then you may be responsible for an additional 3.8% tax.

NET INVESTMENT TAX[3]

	Threshold	Tax rate
Married:	$250,000	3.8%
Single:	$200,000	3.8%

[1] IRS, Rev. Proc. 2024-40, 2024.
[2] IRS, Topic No. 409, "Capital Gains and Losses," January 30, 2024.
[3] IRS, "Questions and Answers on the Net Investment Income Tax," September 13, 2024.

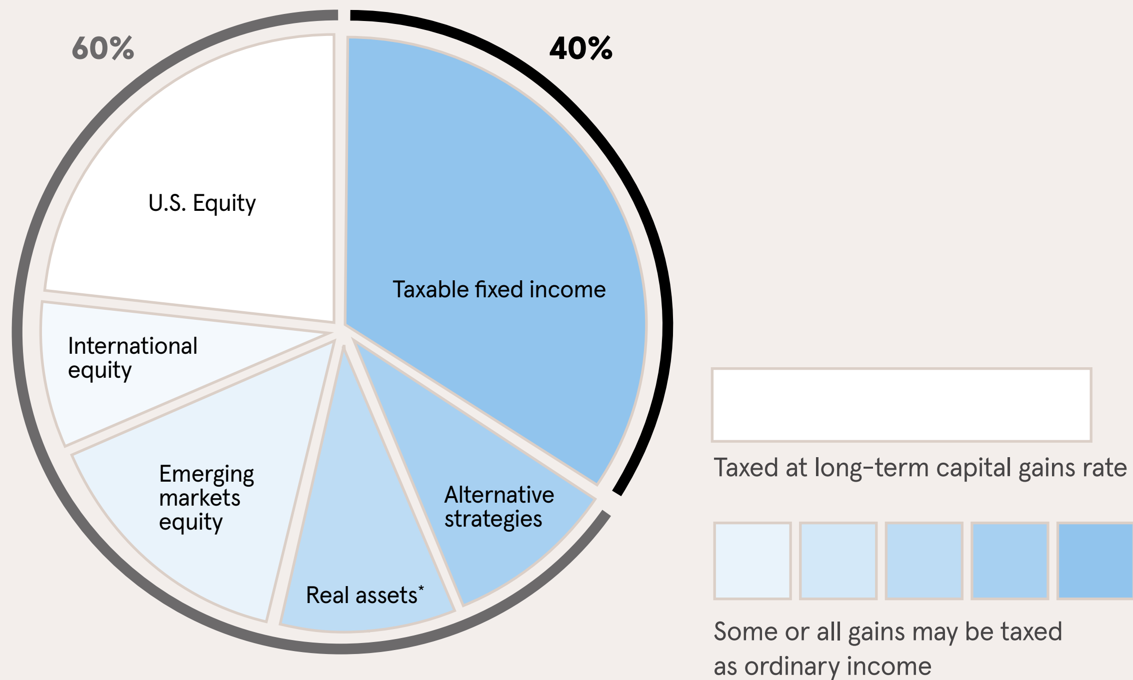
INVESTMENT ACCOUNTS

Taxes on investment gains and distributions can reduce after-tax investment return. By placing tax-inefficient investments into tax-advantaged accounts, such as annuities, you can help keep more of your money working for you. Selling tax-inefficient assets to reallocate them to a tax-advantaged account can be a taxable event. Your financial professional can help you determine when and whether a sale is appropriate.

A traditional portfolio often comprises 60% equities and 40% bonds. Some equities within that 60% can be tax inefficient, meaning they could be more likely to pay out taxable capital gains and dividend distributions. The chart to the right assumes assets are held for longer than one year and describes the potential taxation (long v. short term capital gains) of distributions from those asset classes.

Let's consider the tax advantages of annuities for a moment. A qualified annuity is one that is funded with pretax dollars (such as an IRA) and taxed when withdrawals are taken. On the other hand, a nonqualified annuity is funded with after-tax dollars, meaning taxes have already been paid on that money. If titled properly, the annuity may grow tax deferred, meaning that the earnings are only taxed when withdrawn. When taking distributions from a nonqualified annuity, gains are withdrawn first and taxed as ordinary income. Basis is withdrawn last and is not taxed. A nonqualified annuity may be a tax-efficient strategy to consider for your asset location purposes.

TAX TREATMENT BY ASSET TYPE



Selling tax-inefficient assets to reallocate them to a tax-advantaged account can be a taxable event. Your financial professional can help you determine when and whether a sale is appropriate.

* Real assets are defined as commodities, energy, global and domestic real estate, infrastructure, and natural resources.

PURSUE GROWTH AND ACCUMULATION; MANAGE TAX BURDEN

If you are pursuing growth while managing tax bills, an annuity may help your unique situation. Take a look at this wide array of annuity benefits.[1]

PROTECTED MONTHLY LIFETIME INCOME

Offers a guaranteed* and predictable stream of payments for life—may be available for both you and your spouse.

CAN PROTECT AGAINST MARKET LOSS

May offer a fixed return or principal protection that avoids market downturns.

TAX-DEFERRED GROWTH FOR RETIREMENT

Annuities provide tax-deferred growth potential without contribution limits.

A CHOICE OF INCOME GUARANTEES

You can add enhanced lifetime income benefits for a fee.

ACCESS TO YOUR MONEY[†]

Can allow you to keep control of your money and get access if you need it.

GUARANTEED DEATH BENEFIT

Can offer a guaranteed death benefit for your beneficiary when you pass away.

There are tax advantages available through both traditional individual retirement arrangements (IRAs) and annuities, and annuities offer additional benefits not available through a traditional IRA.

	IRA	NONQUALIFIED ANNUITY
Tax-deferred growth potential[‡]	Yes	Yes
Pre-59½ distribution penalty	Yes	Yes
Contribution limit[§]	Limited	Unlimited
Required minimum distributions (RMD)	Yes	No
Stretch capabilities[**]	No	Yes

An annuity is a long-term, tax-deferred vehicle designed for retirement. A variable annuity involves investment risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.

The principal value of the variable annuity will fluctuate based on the performance of the underlying investment options and may lose value.

Add-on living benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity and there is no guarantee that a variable annuity with an add-on living benefit will provide sufficient supplemental retirement income.

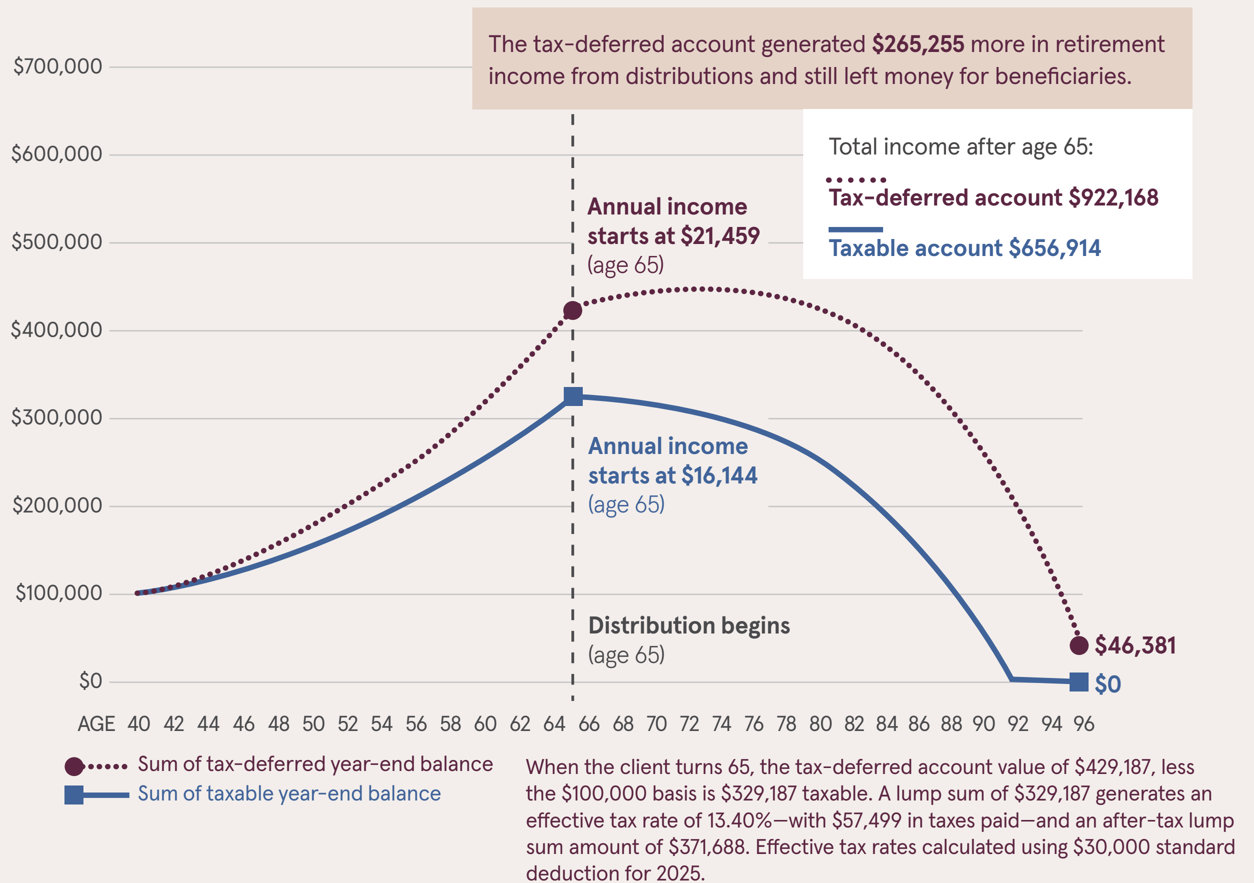
[1] Alliance for Lifetime Income, Retirement Portfolio Chart, July 2018.
[*] Guarantees are backed by the claims-paying ability of the issuing insurance company.
[†] May be subject to fees, limitations, and conditions.
[‡] When withdrawing assets from a nonqualified annuity, earnings are withdrawn before basis and taxed as ordinary income to the policy owner. Once all gains have been exhausted, basis is withdrawn tax-free to the policy owner.
[§] While your contribution to a traditional IRA may be limited, you may be able to deduct contributions to the IRA based on whether you are covered by an employer sponsored plan and your income.
[**] There are limited stretch capabilities with IRAs. See your financial professional for details.

PURSUE GROWTH AND ACCUMULATION; MANAGE TAX BURDEN

During her meeting with her financial professional, Brooke learned there are other options to manage her tax burden, including reallocating a portion of her investments to a tax-deferred account, like an annuity. Her financial professional explained that if a 40-year-old places $100,000 in a taxable investment account and plans for approximately 25 years of potential growth and accumulation—with an average 6% gross rate of return annually—their account value would be approximately $322,873 in 25 years. A gross rate of return does not include the deduction of fees and expenses.

However, if they invest the same $100,000 in a tax-deferred vehicle such as an annuity, assuming the same 6% gross rate of return, they would potentially accumulate an additional $106,314, due to the annuity's tax deferral. Their total accumulation with a tax-deferred account would reach approximately $429,187.

TAX TREATMENT CAN MAKE ALL THE DIFFERENCE



When the client turns 65, the tax-deferred account value of $429,187, less the $100,000 basis is $329,187 taxable. A lump sum of $329,187 generates an effective tax rate of 13.40%—with $57,499 in taxes paid—and an after-tax lump sum amount of $371,688. Effective tax rates calculated using $30,000 standard deduction for 2025.

This hypothetical example assumes a $100,000 initial investment, 25 years of accumulation, 30 years of distribution and a 6% gross rate of return. Taxes on the taxable account growth are assumed to be 20% during the accumulation period. Taxes on both the taxable and tax-deferred accounts are assumed to be 15% during the distribution period. The after-tax lump sum amount of $371,688 from the tax-deferred account is based on a 13.40% tax rate (based on 2025 married filing jointly ordinary income rates) after 25 years of accumulation. Assumptions do not account for any state or local taxes that may apply. The actual tax results of any distribution will depend on an individual's personal tax circumstances. In the example above, ages 40–65 represent the accumulation phase where withdrawals do not take place. Ages 66–95 represent the distribution phase with an annual 5% withdrawal calculated using the age 65 account value from the taxable and tax-deferred account. Withdrawals are increased 3% each year for inflation. **This hypothetical example is for illustrative purposes only, is not representative of the past or future performance of any particular product, and does not reflect the deduction of fees and charges inherent in investing in a variable annuity with an add-on benefit. Past performance is no guarantee of future results.** Investors should consider their individual investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, as these may further impact the results of the comparison. All calculations performed by Jackson.

PURSUE GROWTH AND ACCUMULATION; MANAGE TAX BURDEN

Brooke's financial professional shared the chart to the right, which compares long-term capital gains rates with "effective" ordinary income rates. At some income levels, long-term capital gains may be lower than ordinary income. At other income levels, the rates are roughly the same. And at some, the ordinary income is lower than long-term capital gains. The marginal tax rate is the tax bracket associated with Brooke's income. The effective tax rate represents her actual tax obligation. It's the average rate her ordinary income is taxed, calculated by dividing her total tax expense by her taxable income.[1]

Brooke will likely want to consider these tax rates while she's saving for retirement and when she's withdrawing money from her accounts during retirement.

Much like Brooke, your investment accounts will be taxed at some mixture of ordinary income and long-term capital gains—with maybe some tax-free assets. If you own an annuity, gains realized while saving for retirement are tax-deferred until you take withdrawals.

Once you reach retirement, you may have less income coming in, and with that comes lower taxes. This may mean that your ordinary income rate will be lower than your long-term capital gains rate.

ORDINARY INCOME VS. CAPITAL GAINS AT CERTAIN INCOME LEVELS[2,3]

	Ordinary income tax rates (Married filing jointly)		
Gross income	Marginal tax rate	Effective tax rate	Capital gains rate
$125,000	22%	8.74%	15.00%
$195,000	22%	13.40%	15.00%
$245,000	24%	15.22%	→ **15.00%**
$275,000	24%	16.18%	18.80%
$395,000	32%	18.56%	18.80%
$430,000	32%	19.10%	→ **18.80%**
$625,000	35%	23.58%	23.80%

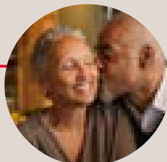
The information in this chart is summarized from IRS - Rev. Proc. 2024-40, and IRS Topic No. 559 Net Investment Income Tax. Note: Tax rates depicted reflect the effective 2025 taxation rates for a married couple filing jointly, less the standard deduction, and do not include any additional credits or deductions. Capital gains rates reflect long-term capital gains rates, plus the net investment income tax where applicable.

Get a digital walkthrough on ordinary income tax rates in retirement.

Scan the QR code or visit jackson.com/tax-brackets to get started.

[1] Erin Gobler, Business Insider, "Marginal vs. effective tax rate: Two ways to measure what you're paying the IRS," November 5, 2022.
[2] IRS, Rev. Proc 2024-40, 2024.
[3] IRS, "Questions and Answers on the Net Investment Income Tax," September 30, 2024.

Ben and Megan



PREPARING FOR THE NEXT GENERATION
BEN AGE 61, MEGAN AGE 59

While Ben and Megan don't consider themselves wealthy, they have built enough wealth to:

- Establish an irrevocable trust to reduce their estate tax liability.
- Leave a financial legacy for their children.

They work with their attorney to draft and fund two irrevocable trusts, which may reduce the burden of estate taxes. Ben funds one trust that Megan can tap for later income, with Megan doing the same for Ben. Both trusts' remaining amounts after the income beneficiary's passing will be paid to their children. This arrangement is known as a spousal lifetime access trust, or SLAT.

Unfortunately, irrevocable trusts often trade an estate tax problem for an income tax problem. Compressed taxes on Ben and Megan's trusts may not allow their legacy to grow as planned. Their financial professional suggests allocating some of the trust assets into annuities within the trust that can grow tax-deferred, avoiding trust tax rates. The annuities will be based on the lives of Ben and Megan's children and can remain intact and passed "in-kind" to the children from the trust. After Ben and Megan's children pass, the annuities can then be stretched by Ben and Megan's grandchildren for multiple generations of tax deferral.

Follow Ben and Megan's journey to eliminating high-trust taxation through tax deferral. →

Taxation on trusts

POTENTIAL HOLES IN BEN AND MEGAN'S BUCKET

Click on the hole that best fits your trust taxation scenario.

Trusts may become tax-inefficient

Income tax on trusts

Scenario presented is a hypothetical example for illustrative purposes only. It is provided for informational purposes and is not intended as investment advice or a recommendation. Your individual circumstances may vary. You should consider your individual situation, including your time horizon, risk tolerance, investment objectives, and the need for an annuity before investing.

TAX-INEFFICIENCY WITH TRUSTS

Ben and Megan set up irrevocable trusts for two needs: minimizing estate taxes and leaving a legacy to their children. If you have started estate planning and formed a trust or you are the beneficiary of a trust, you can work with your financial professional or estate-planning attorney to understand the reason the trust was created. Various types of trusts solve for different needs.

TWO TYPES OF IRREVOCABLE TRUSTS

Irrevocable trusts typically use a TIN number instead of a Social Security number. Social Security numbers are generally written with three digits and then a dash (XXX–), whereas TINs are written with two digits and then a dash (XX–).

There are many types of irrevocable trusts, but they generally fall into two main categories (leaving charitable trusts aside).

Irrevocable grantor trusts	Nongrantor trusts
Taxes are due on realized gains in both trust types, but the real difference is who pays that tax and what amount. (See tax charts to right.)	
Taxes paid by the grantor (person who funds trust)	Taxes paid at the trust level
Taxes paid at grantor's individual tax rates	Taxes paid using compressed rates
Both types of trusts may benefit from a tax-deferred annuity, either to avoid compressed trust tax rates or to reduce the grantor's tax bill each year that the trust realizes income.	

Ben and Megan also want their trusts to be tax-efficient, so they can pass more on to their children. As you can see, it doesn't take much for the trust taxes to add up to the highest tax rate as compared to single filers.

A tax-deferred annuity within an irrevocable trust may help slow the trust's tax drag.

2025 trust tax rates[1]	
$0 – $3,150	10%
$3,151 – $11,450	24%
$11,451 – $15,650	35%
$15,651+	37%

2025 single filer ordinary income tax rates[2]	
$0 – $11,925	10%
$11,926 – $48,475	12%
$48,476 – $103,350	22%
$103,351 – $197,300	24%
$197,301 – $250,525	32%
$250,526 – $626,350	35%
$626,351+	37%

2025 married filing jointly ordinary income tax rates[3]	
$0 – $23,850	10%
$23,851 – $96,950	12%
$96,951 – $206,700	22%
$206,701 – $394,600	24%
$394,601 – $501,050	32%
$501,051 – $751,600	35%
$751,601+	37%

[1] IRS, Rev. Proc. 2024-40, 2024.
[2] Ibid.
[3] Ibid.

INCOME TAX ON TRUSTS

As stated earlier, irrevocable trusts often trade an estate tax problem for an income tax problem. Ben and Megan reviewed their 1041 estate and trust tax returns with their tax professional and identified tax inefficiencies in their trusts.

A tax-deferred annuity can provide tax control over the recognition of income and may allow for compounded growth while potentially lowering the tax burden on trusts.

FORM 1041: U.S. INCOME TAX RETURN FOR ESTATES AND TRUSTS

Here are lines on a Form 1041 you may want to keep in mind and discuss with your tax professional.

LINE 1

Interest income

May increase the trust or its beneficiary's tax burden.

LINE 4

Capital gain or loss

Short-term capital gains and nonqualified dividends are taxed at ordinary income tax rates.

Distributing income can lessen the trust's tax effect, but those distributions can diminish the trust's value and create a tax burden.

For irrevocable trusts, passing income to the income beneficiary moves funds that are outside of an estate back into a potentially taxable estate.

LINE 18

Income distribution deduction

Schedule B determines the income distribution deduction.

A Schedule K-1 is completed for each income or distribution beneficiary.

SCHEDULE B, LINE 7

Distributable net income

Taxable income of the trust/estate computed with modifications such as distributions and capital gains/losses.

SCHEDULE G, LINE 5

Net investment income tax

Was form 8960 completed?

If so, the trust has an additional 3.8% tax on the lesser of 1) net investment income or 2) excess of taxable income over the threshold for trusts and estates (over $15,650 for 2025).[1, 2]

SCHEDULE G, LINE 9

Total tax

The threshold to reach the top tax rate of 40.8% (37% +3.8%) is only $15,651 in 2025.[3, 4]

Click here to see Form 1041*

* Jackson is providing the 3rd party link solely for informational purposes and as a convenience to you. Jackson makes no representations concerning the content of the Third Party Sites. The provision of a link to a Third Party Site does not constitute an endorsement, authorization, recommendation, sponsorship, or affiliation by Jackson with respect to the Third Party Site.

[1] IRS, "Questions and Answers on the Net Investment Income Tax," September 30, 2024.

[2] IRS, Rev. Proc. 2024-40, 2024.

[3] IRS, "Questions and Answers on the Net Investment Income Tax," September 30, 2024.

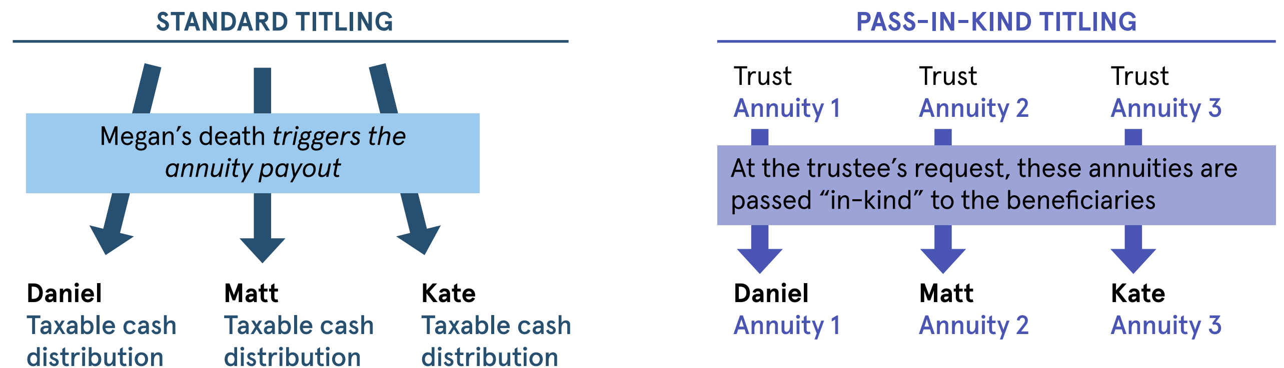
[4] IRS, Rev. Proc 2024-40, 2024.

PASSING DOWN ANNUITY BENEFITS, INCLUDING TAX DEFERRAL

WHY A TAX-DEFERRED ANNUITY CAN HELP:

- Many trusts are eligible for tax deferral under IRC Section 72(u)*.
- The 2025 top trust tax rate of 40.8% (37% + 3.8% additional net investment income tax) is only $15,651[1,2] plus state taxes.
- Trust income distributions can reduce the size of the trust and can impose an added tax burden on the income beneficiary.
- Trustee can request a distribution when income is needed, but otherwise avoid recognizing income from the annuity if it is not needed.†

Ben and Megan ultimately decided on a tax-deferred annuity within their irrevocable trusts. An annuity within a trust can benefit two types of individuals: those who receive income from the trust (income beneficiary, Ben or Megan) and those who receive the remaining trust assets (remainder beneficiaries, Ben and Megan's children). In addition to the accumulation benefits, annuities also provide two key wealth-transfer options. Understanding these two options—standard titling and "pass-in-kind" titling—may help you decide how to title your annuity.



OPTION 1: Standard titling is optimal for providing liquidity

OWNER: Irrevocable trust

ANNUITANT: Income beneficiary (Megan)

BENEFICIARY: Irrevocable trust

CONTINGENT BENEFICIARY: Trust remainder beneficiaries

In this scenario, Ben and Megan's children need liquidity at their mother's death and choose to use cash for reducing debt, home renovations and vacations. At Megan's death, the annuity death benefit is triggered and the trust dispenses the death benefit (cash) according to the trust terms. This will be a taxable event to the beneficiaries (or the trust, if retained) in the amount of their proportionate share of the gain.

OPTION 2: Pass-in-kind titling is designed to extend the tax-deferral benefit

OWNER: Irrevocable trust

ANNUITANT: Child (remainder beneficiary)

BENEFICIARY: Irrevocable trust

In this scenario, the goal is to maximize the period of tax deferral. In this example, Megan's death triggers the distribution of trust assets. At the trustee's request, the annuity can be retitled from the trust as owner, to the annuitant (child) as owner. This doesn't trigger a taxable event.‡

* Under IRC Section 72(u), trusts with non-natural beneficiaries may not qualify for tax-deferred treatment.

† Tax-deferred annuity growth does not contribute to Distributable Net Income.

‡ IRS Private Letter Ruling (PLR) #199905015, says (1) an annuity owned by the credit shelter trust ("B trust") is deemed to be owned by a natural person for purposes of Section 72(u) and, (2) upon dissolution of the trust, the retitling of the annuity contract from the trust as owner to the annuitant as owner does not trigger a taxable event.

[1] IRS, "Questions and Answers on the Net Investment Income Tax," September 30, 2025.

[2] IRS, Rev. Proc. 2040, 2024.

Robert and Linda

HAVE EVOLVING NEEDS
BOTH AGE 75

Robert and Linda jointly own a nonqualified annuity that no longer meets their needs. Their current annuity has an unneeded add-on living benefit and lacks income tax control for their beneficiaries.

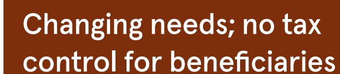
Robert and Linda contacted their financial professional, who informed them of a strategy that would let the couple transfer their unwanted annuity to an annuity without an add-on living benefit—which may better meet their needs. Not having an add-on living benefit elected with an annuity may provide the couple with cost savings, allowing them to potentially grow their legacy faster. This strategy, called a 1035 exchange, is tax-free.

Follow Robert and Linda's journey to learn more about evolving needs and 1035 exchanges. →

Leveraging tax-free transfers

POTENTIAL HOLE IN ROBERT AND LINDA'S BUCKET

Click on the hole below to explore how transferring from one annuity to another may better support your needs.



Scenario presented is a hypothetical example for illustrative purposes only. It is provided for informational purposes and is not intended as investment advice or a recommendation. Your individual circumstances may vary. You should consider your individual situation, including your time horizon, risk tolerance, investment objectives, and the need for an annuity before investing.

CREATING TAX CONTROL FOR BENEFICIARIES

Leaving a lasting legacy for their loved ones is important to Robert and Linda. However, ignoring the tax implications of death-benefit distributions can result in expensive consequences. The way an annuity death benefit is distributed can have a tremendous impact on the amount beneficiaries receive.

A particular method of distribution, the **nonqualified stretch** option, permits your beneficiaries to, upon the annuity owner's passing, "stretch" their inherited distributions over their lifetime. Beneficiaries must elect a stretch within one year of the annuity owner's passing and take a required minimum distribution (RMD) each year based on their life expectancy to satisfy IRS requirements.

Benefits of the nonqualified stretch

- May provide a legacy
- Tax control for beneficiaries
- Continued tax-deferred growth potential for beneficiaries
- Control over legacy distributions

WHAT IS NONQUALIFIED STRETCH?

Income tax control	Beneficiaries pay taxes only as distributions are taken while the balance of the account remains invested.
Added growth potential	Allows beneficiaries to keep the account invested on a tax-deferred basis for a longer amount of time to potentially grow the contract value.
Accelerated distributions	Unless restricted, beneficiaries can accelerate distributions and withdraw additional amounts in any year and even cash out at any time without incurring federal tax penalties.* Ordinary income taxes will apply.
Preselected death benefit	Annuity owners may choose to restrict distributions to the minimum stretch amount until beneficiaries reach a specified age. This can be beneficial in situations where beneficiaries may lack the education or discipline to manage their assets.

* An excess interest adjustment (interest rate adjustment in New York) may apply.

If you are like Robert and Linda and have further evolving needs or no longer need an add-on benefit with your account, a new annuity may also help you establish tax control for you and your beneficiaries. This can be implemented through a 1035 exchange without triggering a taxable event.

EVOLVING NEEDS AND 1035 EXCHANGES

Robert and Linda's financial professional determined they have an annuity that no longer fits their needs and goals. It may be possible for Robert and Linda to exchange their current annuity for a more beneficial one without triggering a taxable event.

Like Robert and Linda, you may be able to trade a nonqualified annuity for another annuity using a 1035 exchange. If you have a life insurance policy that you no longer need or want to pay premiums on, you can exchange the policy's cash value for a nonqualified annuity. You can even exchange one insurance policy for another. Remember, the suitability of an annuity in your unique situation is something that should be discussed with your financial professional.

Exchange advantages may include:

- Increased growth potential (lower cost from not electing an add-on living benefit)
- Realign investment with current objectives
- Benefit beneficiary with compounded tax-deferred opportunity for growth
- Potential tax-free exchange

TYPES OF 1035 EXCHANGES

From		To
NONQUALIFIED ANNUITY	›	NONQUALIFIED ANNUITY
LIFE INSURANCE POLICY	›	NONQUALIFIED ANNUITY
LIFE INSURANCE POLICY	›	LIFE INSURANCE POLICY

- Transfer must go directly from one carrier to another
- You cannot receive funds directly without tax consequences
- The ownership and annuitant designations must remain the same from the original contract to the subsequent contract

Please consult a qualified financial professional to determine whether a 1035 exchange may be right for you. Purchasing an annuity will initiate a new surrender charge. Investors should carefully compare an existing annuity contract or life insurance policy to any newly proposed annuity product.

If you want to identify and possibly plug the holes in your tax bucket, visit jackson.com/taxcalculator for more information on growth potential from tax deferral.

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