

TAX-DEFERRED ACCUMULATION WITH ANNUITIES

Estate planning opportunities with trusts & annuities

Holding taxable investments inside of a trust can have significant tax consequences, reducing returns for the next generation. A tax-deferred annuity inside a trust can avoid the tax drag on accumulating assets.

How do trust-owned annuities work?

- The trust owns the annuity and names an annuitant
- If the trust is acting solely for the benefit of a natural person (i.e., a living breathing human being), the annuity will receive tax deferral¹
- The annuitant is the measuring life for purposes of the early distribution penalty and their death will trigger a death distribution
- If the trust is the beneficiary of the annuity, the death payout option is a lump sum over a 5-year deferral period

What are current trust tax rates?²**2024 Trust tax rates**

10%	\$0-\$3,100
24%	\$3,101-\$11,150
35%	\$11,151-\$15,200
37%	\$15,201 +

For example, \$1 million in net assets only needs to generate a 1.5% return to trigger the highest rates. For trusts owned in high tax states, the marginal rate could be even higher.

**Did you know?**

If taxes are paid inside a trust, the tax rate may be much higher than the individual's tax rate. Even if earnings are passed to the individual, it adds to their individual annual tax burden.

When does this make sense?

- The client wants to accumulate assets while also maintaining control over their legacy for reasons such as:
 - Minor beneficiary
 - Disabilities
 - Spendthrift
 - Second marriage
 - Tax planning

A trust can be a powerful estate planning tool if there are specific reasons for creating the trust and the language of the trust is designed to hold an annuity as an asset.

Practice Tip

If the client does not have a specific reason for the annuity to be owned by a trust, an individually owned annuity still receives the benefit of tax-deferred accumulation. Individually owned nonqualified annuities have the option for a unique legacy feature, called a **nonqualified stretch annuity**. This strategy is like the former stretch IRA which can preserve the client's legacy over the beneficiary's life expectancy.



Learn more

For more on this topic or nonqualified stretch annuities, contact the annuity sales desk:
1-866-335-7355

1. USCode.house.gov. 26 USC 72: Annuities; certain proceeds of endowment and life insurance contracts, Updated December 20, 2023.
2. [Internal Revenue Bulletin: 2023-48 | Internal Revenue Service \(irs.gov\)](#).

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to nonqualified distributions. Please consult a tax advisor for specific information. There are charges and expenses associated with annuities, such as surrender charges (deferred sales charges) for early withdrawals. Variable annuities have additional expenses such as mortality and expense risk, administrative charge, investment management fees and rider fees. Variable subaccounts of annuities are subject to market fluctuation, investment risk and loss of principal.

This information should not be considered as tax or legal advice. Clients should consult their tax or legal advisor regarding their own tax or legal situation.

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