

# Navigating the New Tax Laws



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# General

- Most changes take effect January 1, 2018 so will not affect 2017 tax returns
- Business tax changes are “permanent”

# Standard Deduction

- Pre-Act
  - \$6,500 for Single taxpayer and \$13,000 for MFJ in 2018
  
- New Law
  - \$12,000 for Single and \$24,000 for MFJ
  - Adjusted for inflation after 2018
  - Additional standard deduction for the elderly and blind retained

# Personal Exemption

- Pre-Act
  - \$4,150 for 2018, subject to phaseout for higher earners
  
- New Law
  - Personal Exemption deduction “suspended” by reducing amount to zero
  - Exemption amount retained in limited cases including for qualified disability trusts
    - \$4,150 in 2018

# Capital Gains

## ■ Pre- Act

- 0% rate for 10% and 15% rate bracket taxpayers
- 15% rate for 25%, 28%, 33% and 35% rate bracket taxpayers
- 20% for all others

## ■ New Law

- Same concepts but different break points
  - 15% breakpoint - \$77,200 for MFJ/\$38,600 for Single/\$2,600 for Estates and Trusts
  - 20% breakpoint - \$479,000 for MFJ/\$425,800 for Single/\$12,700 for Estates and Trusts

# 2018 Tax Facts At-a-Glance

## Income Taxes

### 2017

**If Taxable Income Is:**

Over	But Not Over	The Tax Is	Of Excess Over
<b>Married Filing Jointly</b>			
\$0	\$18,650	\$0.00 + 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	And Over	131,628.00 + 39.6%	470,700
<b>Single</b>			
\$0	9,325	\$0.00 + 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	And Over	121,505.25 + 39.6%	418,400
<b>Estates and Trusts</b>			
\$0	\$2,550	\$0.00 + 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	And Over	3,232.50 + 39.6%	12,500

### 2018

**If Taxable Income Is:**

Over	But Not Over	The Tax Is	Of Excess Over
<b>Married Filing Jointly</b>			
\$0	\$19,050	\$0.00 + 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	And Over	161,379.00 + 37%	600,000
<b>Single</b>			
\$0	9,525	\$0.00 + 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	And Over	150,689.50 + 37%	500,000
<b>Estates and Trusts</b>			
\$0	\$2,550	\$0.00 + 10%	\$0
2,550	9,150	255.00 + 24%	2,550
9,150	12,500	1,839.00 + 35%	9,150
12,500	And Over	3,011.50 + 37%	12,500



S.S./Medicare Payroll Tax	2017	2018
<b>Max. Taxable Wage Base for S.S.</b>	\$127,200	\$128,400
Employee Tax Rate	6.2%	6.2%
Self-Employed Tax Rate	12.4%	12.4%
<b>Medicare Payroll Tax</b>		
Employee Tax Rate (Initial/Over)	1.45% / 2.35%	1.45% / 2.35%
Self-Employed Tax Rate (Initial/Over)	2.90% / 3.80%	2.90% / 3.80%
<b>Additional .9% Medicare Payroll Tax - Taxable Wage Base Thresholds</b>		
Married Filing Jointly	\$250,000	\$250,000
Single / Head of Household	200,000	200,000
Married Filing Separately	125,000	125,000

Cap Gains <sup>1</sup> & Dividends	2017	2018
<b>Rate</b>	<b>Income Tax Bracket</b>	<b>Married Joint / Single</b>
0%	15% or Below	Up to \$77,200 / \$38,600
15%	25% to 35%	77,200-479,000 / 38,600-425,800
20%	39.6%	Over 479,000 / 425,800

<sup>1</sup>Assets held at least 12 months and qualified dividends

Kiddie Tax <sup>2</sup>	2017	2018	
<b>First \$1,050</b>	No Tax	<b>Taxable Income</b>	
<b>Next 1,050</b>	Child's Rate		
<b>Amounts Over Parents' Rate</b>			
	Over-Not Over		Tax Is / Of Amount Over
	\$0-\$2,550		\$0.00 + 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	

<sup>2</sup>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/her support; or c) a child age 19-23 whose earned income does not exceed one-half his/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.

Child Tax Credits	2017	2018
<b>Amount Per Child Under Age 17</b>	\$1,000	\$2,000
<b>Phase-Out \$50 for each \$1,000 of Modified AGI Over:</b>		
Single	\$75,000	\$200,000
Married Filing Jointly	110,000	400,000
Married Filing Separately	55,000	200,000

Standard Deductions	2017	2018
<b>Married Filing Jointly</b>	\$12,700	\$24,000
<b>Head of Household</b>	9,350	18,000
<b>Single/Married Filing Separately</b>	6,350	12,000
<b>Additional (Age 65/older, or blind)</b>		
Married	1,250	1,300
Single, not surviving spouse	1,550	1,600

Personal Exemptions	2017	2018
<b>Personal Exemption</b>	\$4,050	\$0
<b>Reduction of Personal Exemption<sup>3</sup> - Threshold AGI</b>		
Single	\$261,500	-
Head of Household	287,650	-
Married Filing Jointly	313,800	-
Married Filing Separately	156,900	-

<sup>3</sup>Personal exemptions must be reduced by 2% for each \$2,500 (\$1,250 married filing separately) or fraction thereof of AGI in excess of threshold.

Itemized Deductions	2017	2018
<b>Reduction of Itemized Deductions<sup>4</sup> - Threshold AGI</b>		
Single	\$261,500	-
Head of Household	287,650	-
Married Filing Jointly	313,800	-
Married Filing Separately	156,900	-

<sup>4</sup>Specific itemized deductions claimed must be reduced by 3% of AGI in excess of threshold. The maximum reduction is 80%.

Social Security Benefits	2017	2018
<b>Taxable Portion of Social Security Benefits</b>		
	(Up to 85% taxable if provisional income is)	(Up to 85% taxable if provisional income is)
Married Filing Jointly	More than \$44,000	More than \$44,000
Single	More than 34,000	More than 34,000
<b>Maximum Earned Income Before S.S. Benefits are Reduced</b>		
Under Full Retirement Age	\$16,920	\$17,040
(Lose \$1 for every \$2 of earnings)	1,410/month	1,420/month

Qualified Retirement Plans	2017	2018
<b>SEP Plan Participant Max % of Comp<sup>5</sup></b>	25%	25%
SEP Per Participant Max \$ Allocation Limit	\$54,000	\$55,000
SEP Minimum Compensation	600	600
<sup>5</sup> 20% if self employed		
<b>SIMPLE IRA Employee Contribution</b>	12,500	12,500
SIMPLE IRA Catch-Up - Age 50+	3,000	3,000
<b>401(k) / 457 Plan Elective Employee Deferral</b>	18,000	18,500
401(k) / 457 Plan Catch-Up - Age 50+	6,000	6,000
<b>403(b) TSA Elective Employee Deferral</b>	18,000	18,500
403(b) TSA Catch-Up - Age 50+	6,000	6,000
403(b) TSA Catch-Up - 15+ Yrs w/ Current Employer	3,000	3,000
<b>Defined Contribution Plan</b>		
Max \$ Limit Per Participant	54,000	55,000
Max Deduction % of Eligible Payroll	25%	25%
<b>Defined Benefit Plan Maximum Benefit</b>	215,000	220,000
<b>Covered Compensation Limit</b>	270,000	275,000
<b>Highly Compensated Employee</b>	120,000	120,000

IRAs	2017	2018
<b>Traditional or Roth IRA Contribution</b>	\$5,500	\$5,500
IRA Catch-Up - Age 50+	1,000	1,000
<b>Phase-Out Range for Deductible Contributions to Traditional IRAs<sup>6</sup></b>		
Married Filing Jointly	\$99,000-119,000	\$101,000-121,000
Single/Head of Household	62,000-72,000	63,000-73,000
Married Filing Separately	0-10,000	0-10,000
<sup>6</sup> For active participants in another retirement plan		
<b>Phase-Out Range for Contributions to Roth IRAs</b>		
Married Filing Jointly	\$186,000-196,000	\$189,000-199,000
Single/Head of Household	118,000-133,000	120,000-135,000
Married Filing Separately	0-10,000	0-10,000

Coverdell Education Savings Accts	2017	2018
<b>Maximum Contribution</b>	\$2,000/ beneficiary	\$2,000/ beneficiary
<b>Phase-Out Range</b>		
Married Filing Jointly	\$190,000-220,000	\$190,000-220,000
Single	95,000-110,000	95,000-110,000

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### Required Minimum Distributions (Uniform Table)

Age	Factor	Age	Factor
70	27.4	86	14.1
71	26.5	87	13.4
72	25.6	88	12.7
73	24.7	89	12.0
74	23.8	90	11.4
75	22.9z	91	10.8
76	22.0	92	10.2
77	21.2	93	9.6
78	20.3	94	9.1
79	19.5	95	8.6
80	18.7	96	8.1
81	17.9	97	7.6
82	17.1	98	7.1
83	16.3	99	6.7
84	15.5	100	6.3
85	14.8	101	5.9

### Education Incentives

	2017	2018 <sup>8</sup>
<b>American Opportunity Credit</b> (This is a modification of the Hope Credit) (100% credit for first \$2,000 of eligible expenses and 25% of additional \$2,000 of expenses)	\$2,500	\$2,500
<b>Lifetime Learning Credit</b>	2,000	2,000
<b>Modified AGI Phase-Outs for:</b>		
<b>American Opportunity Credit</b>		
Married Filing Jointly	\$160,000-180,000	\$160,000-180,000
Others	80,000-90,000	80,000-90,000
<b>Lifetime Learning Credits</b>		
Married Filing Jointly	\$112,000-132,000	\$114,000-134,000
Others	56,000-66,000	57,000-67,000
<b>Phase-Outs for Exclusion of U.S. Savings Bond Income</b>		
Married Filing Jointly	\$117,250-147,250	\$119,550-149,550
Others	78,150-93,150	79,700-94,700

<sup>8</sup>Income Limits are based on current information as released by the IRS.  
(See IRS Pub 970 for complete explanation including exceptions)



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Divisional Vice President

*Two primary types of IRAs: **Traditional and Roth.***

### Traditional IRA

- Contributions may be tax deductible
- Any earnings grow tax deferred until withdrawn
- Taxes generally must be paid on any withdrawals
- Beneficiaries may pay income taxes on distributions

### Roth IRA

- Contributions are on an after-tax basis
- Earnings grow tax-deferred
- No taxes paid on withdrawals when certain criteria are met
- Beneficiaries may receive distributions without income tax if 5 year rule is met

# Retirement – Current

\*78% This scenario covers 78% of the desired retirement goal objectives.



\*This value indicates the percentage of your total retirement needs that can be covered by your total retirement resources during your retirement time period.

## What Are My Options

The following table details various alternative options, each of which will achieve 100% goal coverage.

	Bill	Sally
Retire In (Age/Year)	78/2048	78/2050
Cover % of Expenses		76% (\$45,752)
Save Monthly		\$4,253
Save a Lump Sum		\$905,814

## Assumptions

The following table details the key assumptions used in the generation of this scenario:

	Bill	Sally
Retirement Age/Year	65/2035	65/2037
Life Expectancy	90/2060	90/2062
Desired Fixed Expenses Covered		100% (\$131,006)
Desired Discretionary Expenses Covered		100% (\$0)
Annual Inflation Rate		3.00%
Total Monthly Savings		\$538
Investment Objective (ROR) Pre-Retirement		Current - Rebalanced (5.09%)
Investment Objective (ROR) Retirement		Current - Rebalanced (3.61%)

## Analysis



- Net Worth at Start of Retirement Year: \$1,279,139
- Net Worth at Plan End: \$1,002,194
- Year Capital Is Exhausted: 2050
- % Fixed Needs Covered by Total Resources: 78%

# additional Roth IRA benefits

- Easy accessibility to money before retirement
- No lifetime RMDs
- No maximum age for contributions
- Beneficiaries may inherit benefits income tax-free
- Account may not be counted as asset towards certain college financial aid
- Can be used for qualified expenses, such as buying a first home, education, certain medical expenses, disability, and/or health insurance premiums without paying additional 10% IRS penalty
- Can own in addition to employer retirement plan

# choosing Roth IRA vs. Traditional

- Age/time horizon – generally Roth preferred for younger savers with longer time horizons
- Roth IRAs are not available for annual contributions for certain higher income individuals.
- The Roth IRA may be a better choice if you believe your tax rate during retirement will be higher than pre-retirement rate.
- If you have high income now and are eligible for a tax deduction, and you expect your tax rate in retirement to be lower, then a Traditional IRA may be better.
- With a traditional IRA, you generally are required to take lifetime withdrawals when you reach age 70 ½ - Not applicable with Roth IRA
- Can have both Roth IRA and Traditional IRA – many people do (total annual contribution between them can't be more than \$5,500 for 2015 and 2016).
- Couples may also want to have both.
- Consult a qualified tax advisor

# how to set up a Roth

- Set up individually or through your employer
  - Company: Roth 401k, Roth 403b
  - Individual: Roth IRA
- Can contribute to both company retirement account and a personal Roth IRA

# Roth IRA investments

Permissible investments for Roth IRAs include but are not limited to:

- Stocks
- Bonds
- Mutual Funds/Exchange Traded Funds
- Certificates of deposit (CDs)
- Annuities
- Commodities



# rules for Roth IRA contributions

- Must be cash
- Must have earned income for contribution year (but money can come from any source)
- \$5,500 limit
- Must meet income limitation (other than conversion)
- Spousal IRAs
- Can be made after age 70 ½
- Annual deadline – April 15

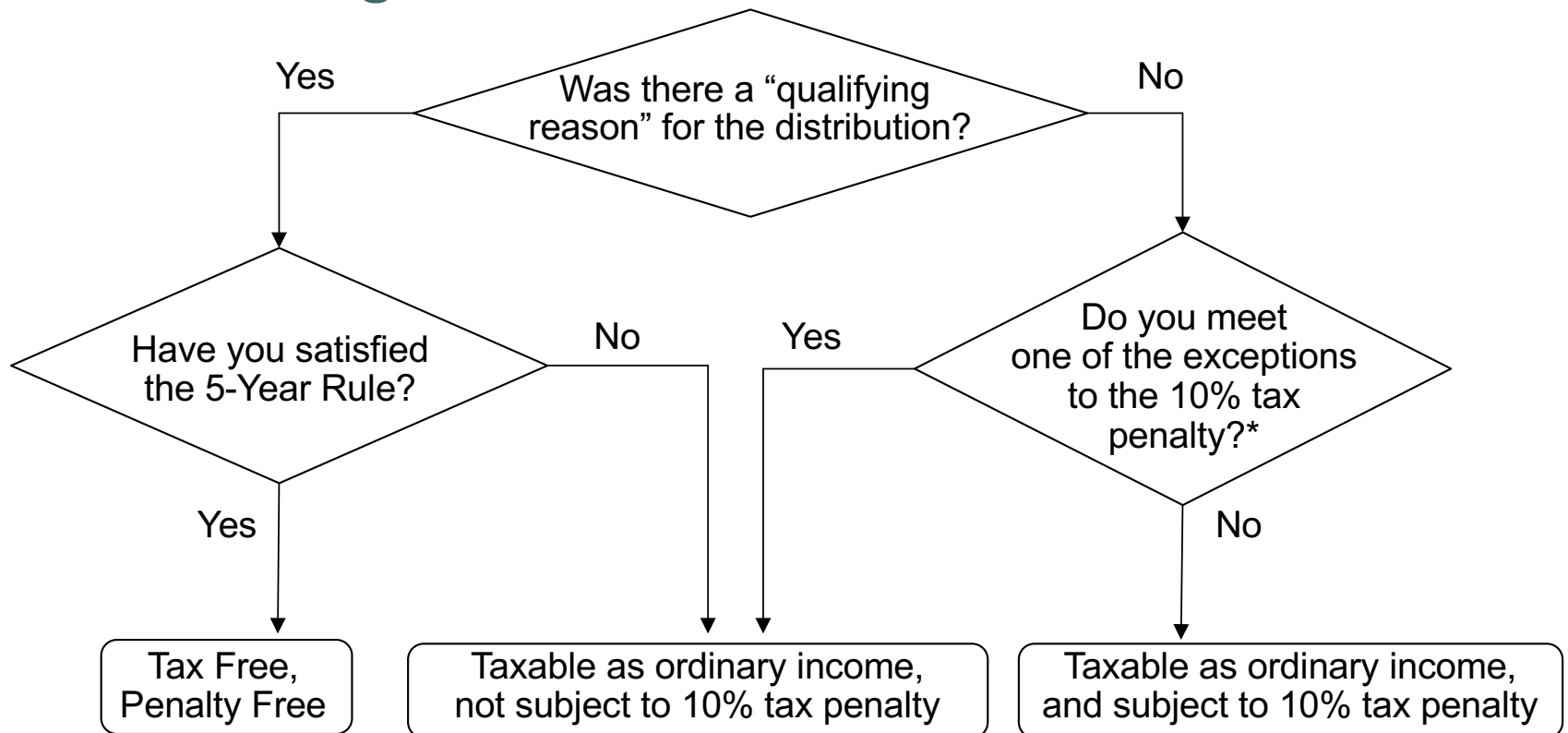
# rules for Roth IRA distributions / withdrawals

## *On Your Principal:*

Can take out principal (original contributions) without tax penalties or taxes at any time.

# rules for Roth IRA distributions / withdrawals

## On Your Earnings:



# “qualifying” reasons for distributions

- You are age 59½ or older.
- You are disabled.
- It is made to your beneficiaries after death.
- You use the money to purchase a first home; up to \$10,000 lifetime from all IRAs (Roth IRA and Traditional IRA).

# how does the 10% penalty work?

## *More Exceptions:*

- Unreimbursed medical expenses that exceed a certain level of your adjusted gross income based on tax law.
- You are paying medical insurance premiums after losing your job.
- Qualified higher education expenses.
- Qualified reservist or disaster recovery assistance distribution.

# who should consider opening a Roth IRA?

- Young individuals under the income limits – with or without company retirement plans.
- Those that will potentially be in higher or equal tax bracket in retirement
- Self-employed (under income limits)
- Non-working spouses
- Retired individuals with earned income
- Minors who have earned income

# advantages of starting early

## Hypothetical Example

Age	Years Until 65	Monthly Contribution	Total Contribution	Growth*	Total Value
25	40	\$189	\$90,905	\$409,095	\$500,000
30	35	\$276	\$115,920	\$384,070	\$500,000
35	30	\$407	\$146,689	\$353,311	\$500,000
40	25	\$614	\$184,090	\$315,905	\$500,000
45	20	\$954	\$229,023	\$270,977	\$500,000
50	15	\$1,568	\$282,299	\$217,701	\$500,000
53	12	\$2,388	\$282,299	\$217,701	\$500,000

\*Chart assumes a hypothetical 7% growth for illustrative purposes. These figures are not intended to indicate the performance of any specific investments. Taxes and fees were not taken into consideration. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of risk. Actual results will vary.



# Roth IRA conversions

- Benefits
  - May eliminate future income taxes on IRA, no matter how large it grows.
  - Removes money from your estate (in the process of paying income taxes generated by conversion)
- Drawbacks
  - Taxable portion must be included in gross income.
  - May push you into higher tax bracket in year of conversion
- Easy Process
  - Your Roth IRA provider takes care of the transfer for you.



# Roth IRA conversions

- Retirement plans include:
  - Traditional IRA
  - SEP IRA (rollover distribution)
  - Simple IRA after two years (rollover distribution)
- Employer sponsored retirement plans include:
  - 401(k)
  - 403(b)
  - 457(b) Governmental plan

# is a Roth IRA conversion right for you?

*Probably, if:*

- You expect your tax rate to be higher in retirement.
- If you have cash available outside the plan to pay for taxes.
- If you think the account value will rise substantially.
- If the current value has shrunk.
- If your income is low for this year.
- If you expect to not have to take distributions for many years or maybe never.
- You simply want to help the next generation – eliminate their tax burden (estate planning).
- You can make partial conversions (can keep your tax bracket down in year of conversion).

# a financial professional can help

A financial professional has the experience and know-how to:

- Develop a strategy to help you meet your retirement goals and objectives
- Provide objective, unemotional advice and answers to your retirement questions – especially during crises.
- Recommend appropriate investment products from thousands of choices
- Help minimize the bite of taxes
- Review your situation regularly, ongoing check-ups
- Refer you to other necessary professionals – Estate Planning attorneys and accountants
- Reduce your stress and save you time

# conclusion: key points to remember

- Always ask if there's a Roth savings alternative.
- Consult a qualified tax advisor on whether to choose a pre-tax or after-tax (Roth) contribution. Could be both between couples.
- Start early!
- Talk to a financial professional!
- Review your financial situation regularly.

**thank you  
for joining us today**