SUCCESS STRATEGIES
Advanced Sales

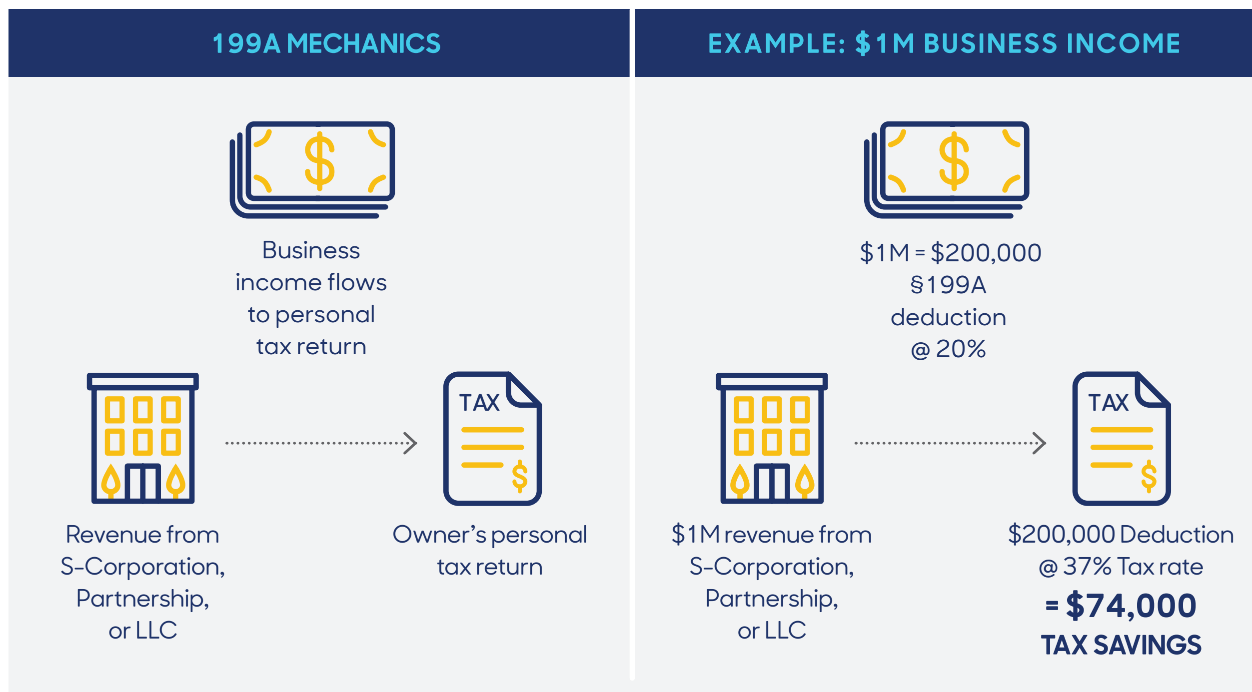
Planning with Tax Savings

S-Corporations, LLCs, & Other Partnerships

Small Business

Tax Savings for Pass-through Businesses

The 2017 Tax Act created IRC Section 199A, which allows for qualifying small businesses that do not operate as a C-Corporation to deduct 20% of their qualified business income (QBI). Businesses that qualify must be 'pass-through' entities, such as a partnership, an LLC or an S-Corporation.



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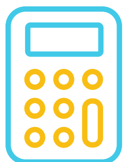
Limitations for Service Businesses

Certain service businesses (SSTB) are restricted in the amount they can deduct. Service companies such as medical practices and law, accounting and investment firms, can take advantage of the 20% write-off only if their income remains below a threshold amount, currently $340,100 for married filing jointly(MFJ), or $170,050 for all single filers(S), subject to annual changes. The deduction is phased out over the next $74,900 (MFJ) and $37,450(S) respectively, after which no deduction is allowed for these service companies. The 2017 Tax Act made an exception for architectural and engineering firms, which would otherwise be considered SSTB under §199A. Non-SSTBs are eligible for the full 20% deduction without regard to the income cap applicable to SSTBs. However, the deduction amount for non-SSTBs may be limited by wages or property owned. This is a highly technical area and clients should consult their tax advisors regarding their particular situation.

> Business owners can reposition the §199A tax savings to accomplish their planning goals.



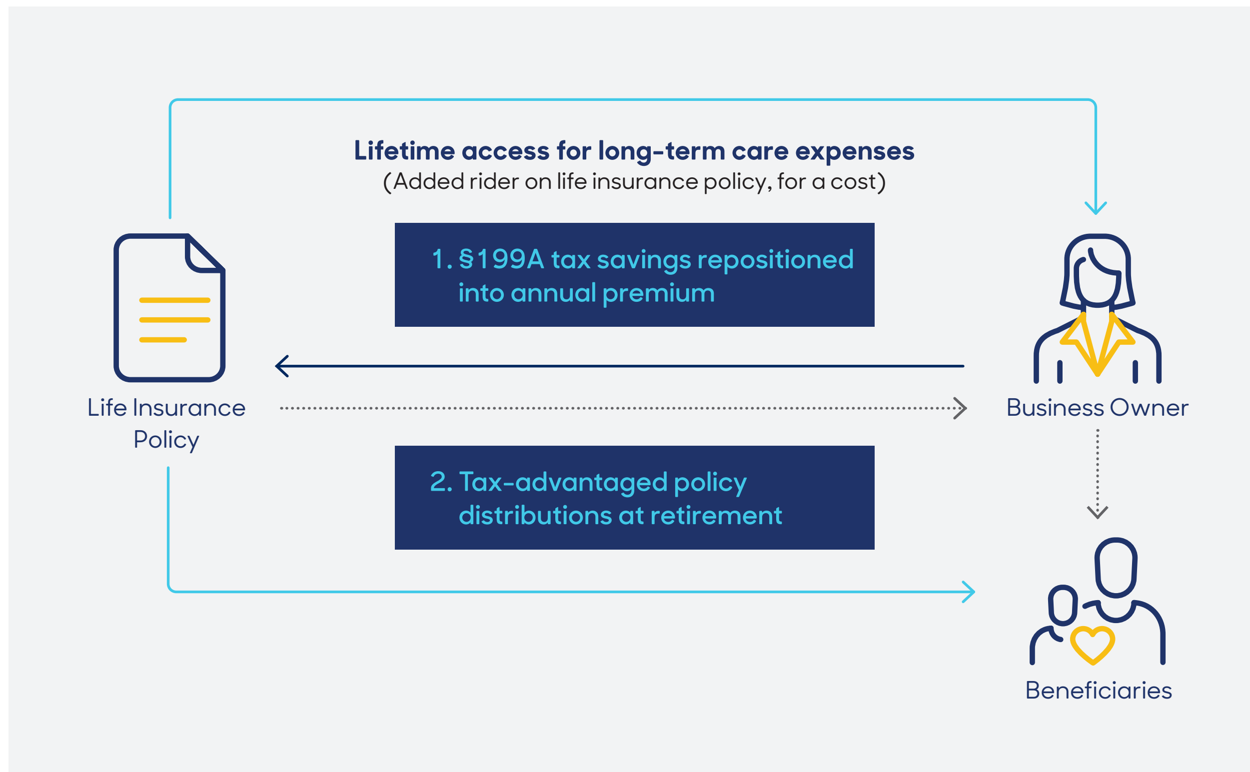
Tax Savings

REPOSITIONING THE TAX SAVINGS FROM A §199A DEDUCTION

A personal life insurance plan, properly designed, can afford the business owner significant estate and retirement benefits.

Below is an example in which an S-Corporation's qualifying income of $1M potentially generates a $200,000 income tax deduction assuming the full 20% deduction under §199A. This equates to $74,000 in tax savings for a business owner who is in the 37% effective tax rate. Business owners can use the tax savings as a source of funding for an insurance need.

How Savings from IRC Section 199A Can Help Fund a Life insurance Need



The savings can be repositioned into a whole life insurance policy to generate tax-advantaged supplemental income during retirement. When a rider is added to the policy (for additional cost), the death benefit can be accelerated during lifetime to cover costs associated with a long-term care illness. Life insurance cash values on a policy grow tax-deferred and can permanently avoid income tax if withdrawals are not taken in excess of premiums paid.[1] Subsequent distributions from the policy can be taken as tax-preferred loans, when structured properly. The policy death benefit is generally received by beneficiaries tax-free.[2]

Contact Advanced Sales at **1-800-601-9983 Option #2**
or email **MMSDAdvnacedSalesTeam@MassMutual.com**

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[1] Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policyowner in under age 59½.

[2] There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. However, the death benefit may be subject to estate tax, where applicable, if not owned by a properly drafted trust.

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