



# TEMPEWICK

WEALTH MANAGEMENT

## Tax Digital Playbook

IDENTIFY AND HELP PLUG THE HOLES IN YOUR LEAKY BUCKET



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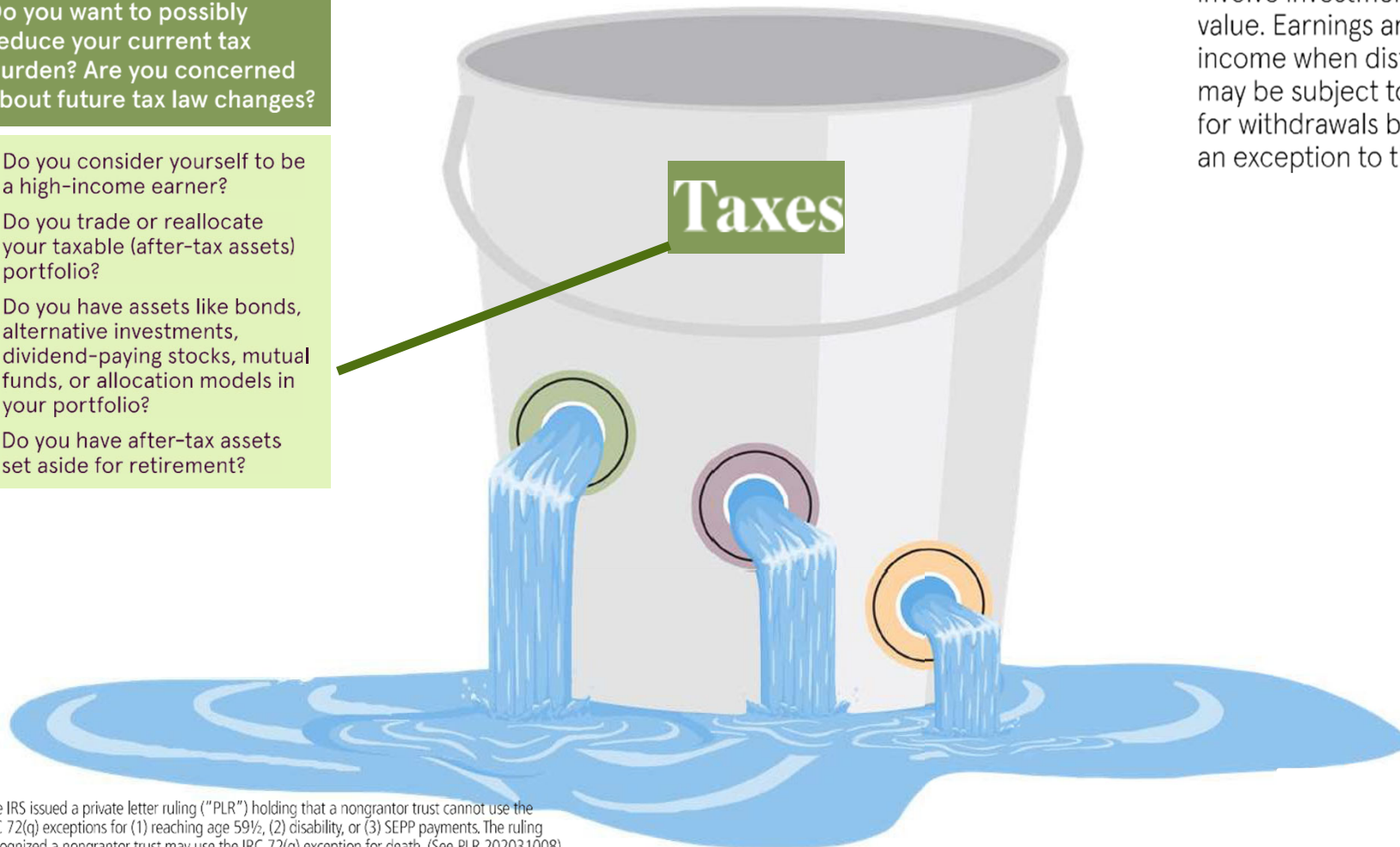
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# Taxes are like holes in a bucket.

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.

\* 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

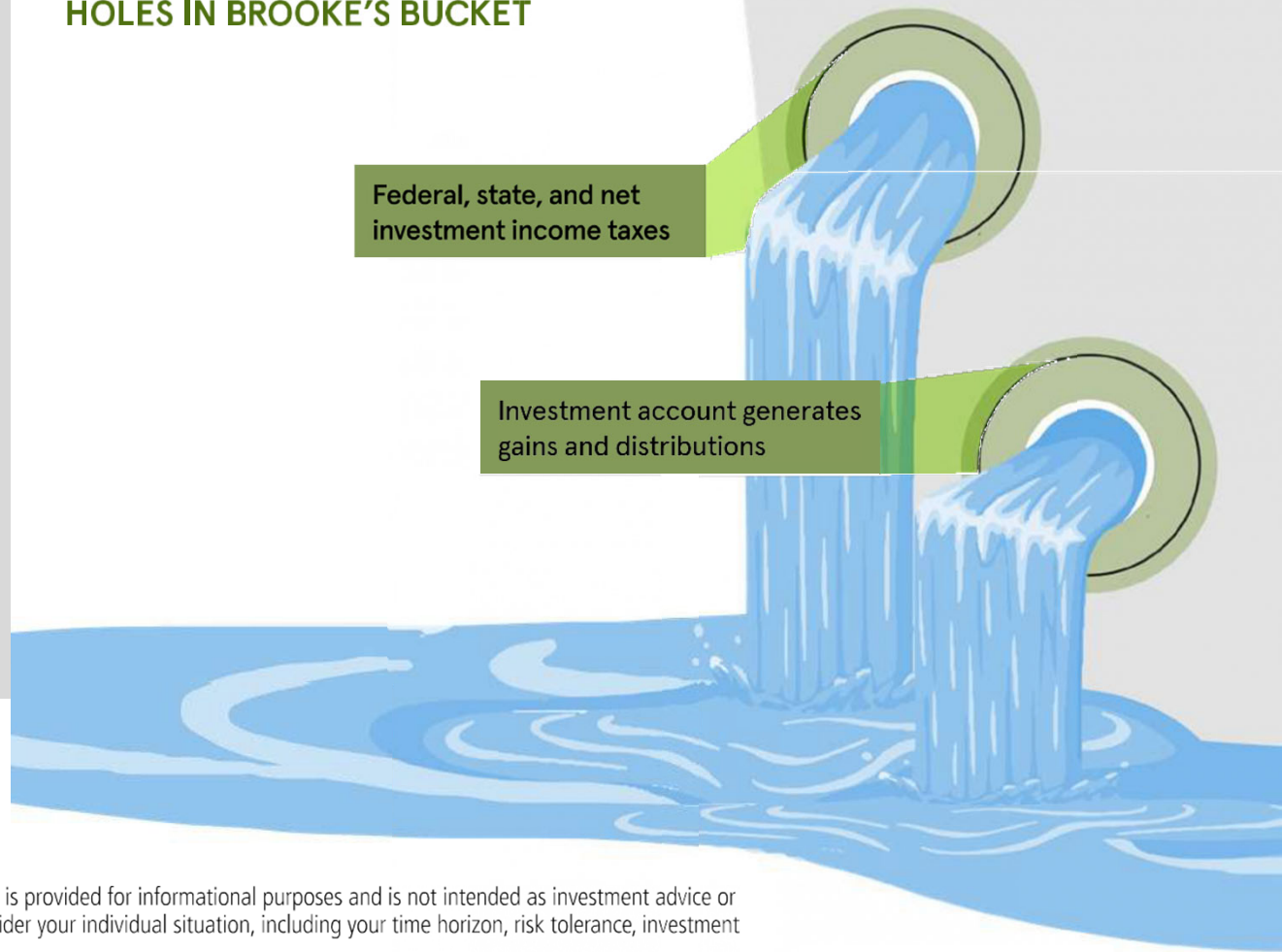
Brooke just paid her biggest tax bill to the U.S. government ever, and she's not too happy about it. Brooke's high level of taxation is a result of:

- 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).

## Taxes on income and gains from investments

### HOLES IN BROOKE'S BUCKET



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<sup>\* 1</sup>

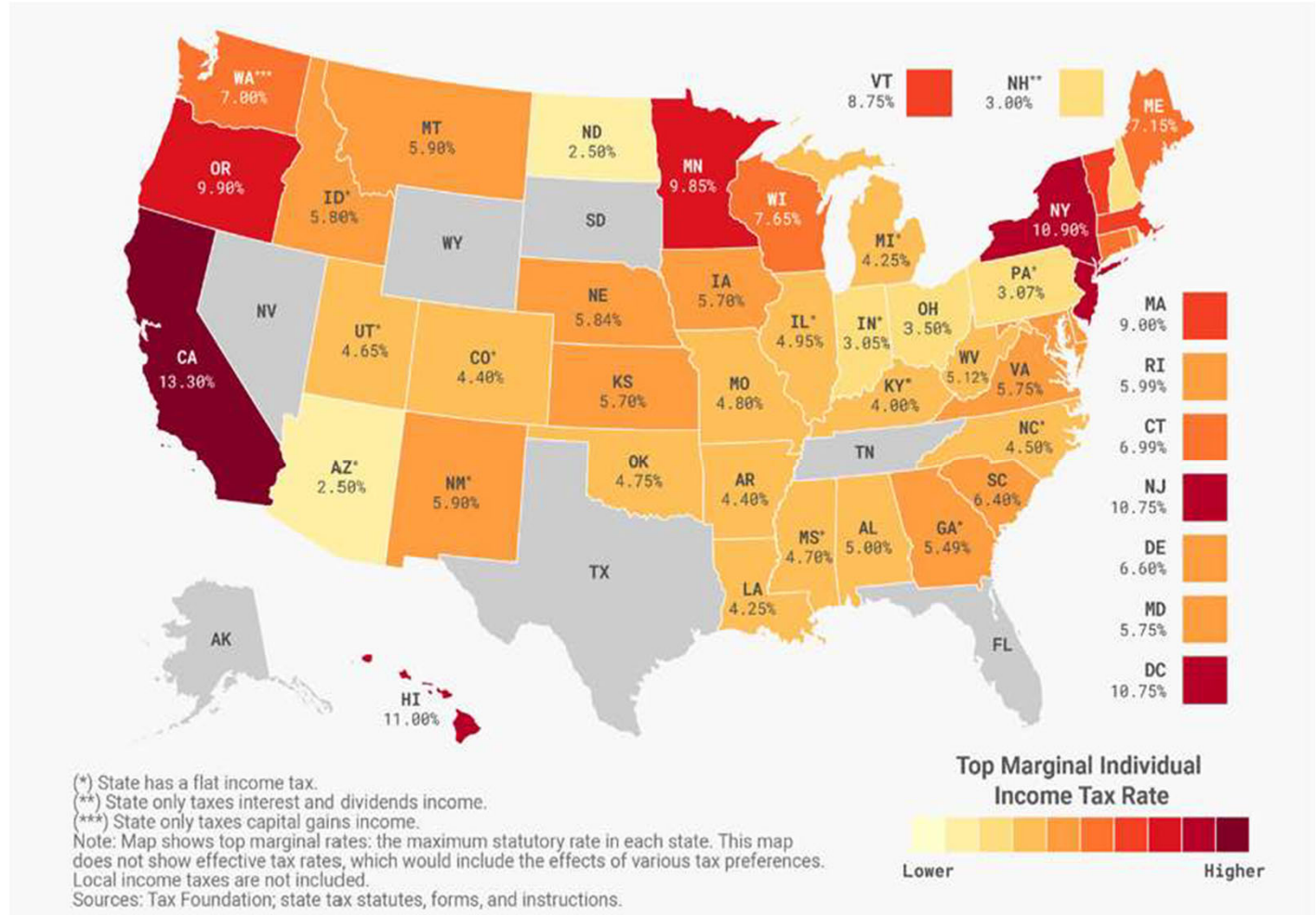
<b>Married filing jointly:</b>	<b>\$0 – \$23,850</b>	<b>10%</b>
\$23,851	\$96,950	\$2,385 + 12%
\$96,951	\$206,700	\$11,157 + 22%
\$206,701	\$394,600	\$35,302 + 24%
\$394,601	\$501,050	\$80,398 + 32%
\$501,051	\$751,600	\$114,462 + 35%
\$751,601+	–	\$202,154.50 + 37%
<b>Single:</b>	<b>\$0 – \$11,925</b>	<b>10%</b>
\$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<sup>1</sup>



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.

<sup>1</sup> 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<sup>1,2</sup>

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<sup>3</sup>

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

<sup>1</sup> IRS, Rev. Proc. 2024-40, 2024.

<sup>2</sup> IRS, Topic No. 409, "Capital Gains and Losses," January 30, 2024.

<sup>3</sup> IRS, "Questions and Answers on the Net Investment Income Tax," September 13, 2024.

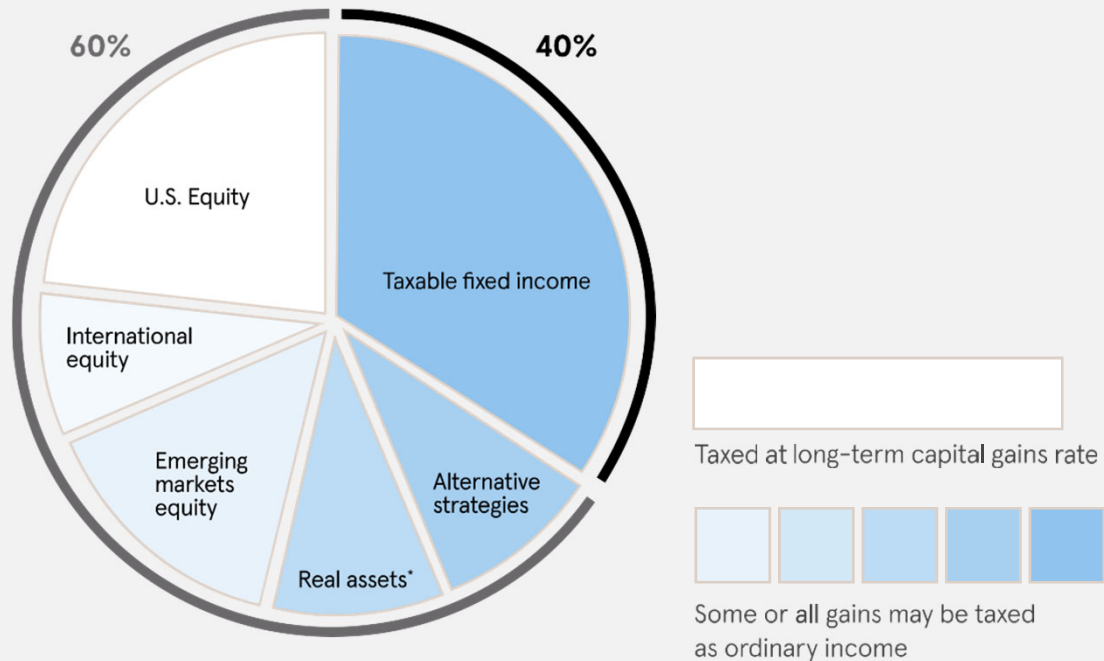
# INVESTMENT ACCOUNTS

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.<sup>1</sup>

## ✓ 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<sup>†</sup>

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.

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.

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
<b>Tax-deferred growth potential<sup>‡</sup></b>	✓ Yes	✓ Yes
<b>Pre-59½ distribution penalty</b>	✓ Yes	✓ Yes
<b>Contribution limit<sup>§</sup></b>	Limited	Unlimited
<b>Required minimum distributions (RMD)</b>	✓ Yes	✗ No
<b>Stretch capabilities<sup>**</sup></b>	✗ No	✓ Yes

<sup>1</sup> Alliance for Lifetime Income, Retirement Portfolio Chart, July 2018.

<sup>\*</sup> Guarantees are backed by the claims-paying ability of the issuing insurance company.

<sup>†</sup> May be subject to fees, limitations, and conditions.

<sup>‡</sup> 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.

<sup>§</sup> 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.

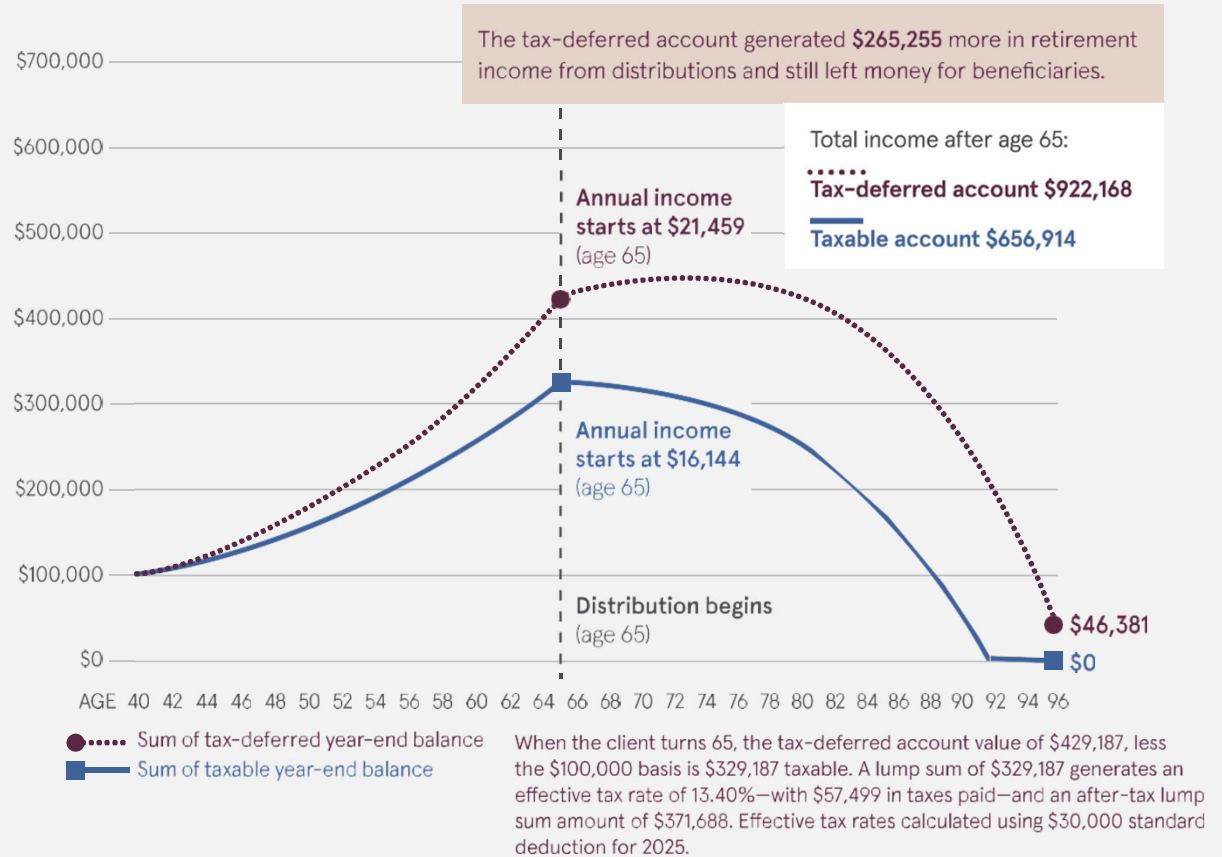
<sup>\*\*</sup> There are limited stretch capabilities with IRAs. See your financial professional for details.

# 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



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 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.<sup>1</sup>

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<sup>2,3</sup>

Gross income	Ordinary income tax rates (Married filing jointly)		Capital gains rate
	Marginal tax rate	Effective tax 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.

<sup>1</sup> Erin Gobler, Business Insider, "Marginal vs. effective tax rate: Two ways to measure what you're paying the IRS," November 5, 2022.

<sup>2</sup> IRS, Rev. Proc. 2024-40, 2024.

<sup>3</sup> IRS, "Questions and Answers on the Net Investment Income Tax," September 30, 2024.

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