A tax-efficient strategy for your clients' investments

Help them manage tax exposure with a deferred variable annuity

Higher tax rates are here. The enactment of the American Taxpayer Relief Act of 2012 resulted in tax changes for individuals, businesses, and investors.

Key 2013 tax changes

TOP TAX RATES	ESTATE AND GIFT TAX	CAPITAL GAINS	MEDICARE TAX
Under the new provisions, the top marginal income tax rate permanently increased from 35% to 39.6% for single filers with taxable incomes above $400,000 ($450,000 for joint filers).	The lifetime estate and gift tax exemption of $5.25 million (with annual inflation adjustments) is permanently extended, but the top tax rate is increased from 35% to 40%.	The top rate for long-term capital gains and qualified dividends increased to 20% for single filers with taxable incomes above $400,000 ($450,000 for joint filers).	The new 3.8% Medicare tax applies to single filers with modified adjusted gross income (AGI) above $200,000 ($250,000 for joint filers). The tax applies to net investment income, including interest, dividends, capital gains, rents, royalties, annuities, and passive business income.

Tax-inefficient investments

Affluent investors, those who are high-income earners or of high net worth, are generally in higher tax brackets. Since they often hold the bulk of their liquid investments in taxable accounts, they may be losing considerable investment earnings to taxes.

They also may be missing potential earnings because of exposure to tax-inefficient assets, which include almost all fixed-income investments other than municipal and U.S. Savings Bonds. U.S. high-yield bonds and emerging-market bonds are the most tax inefficient.[1]

Some types of equity investments, such as those with large, regular distributions of ordinary income and short-term capital gains, may also be tax inefficient. These may include certain equity mutual funds, like dividend-paying funds and real estate investment trust funds.

Affluent clients could benefit from tax deferral

Affluent investors are usually subject to relatively high marginal income tax rates. Therefore, most could benefit by deferring taxes on their investments that generate large amounts of short-term capital gains or ordinary income.

A deferred variable annuity (VA) – a product that may have been overlooked by advisors and their clients – can add needed tax-deferred growth potential to your clients' portfolios.