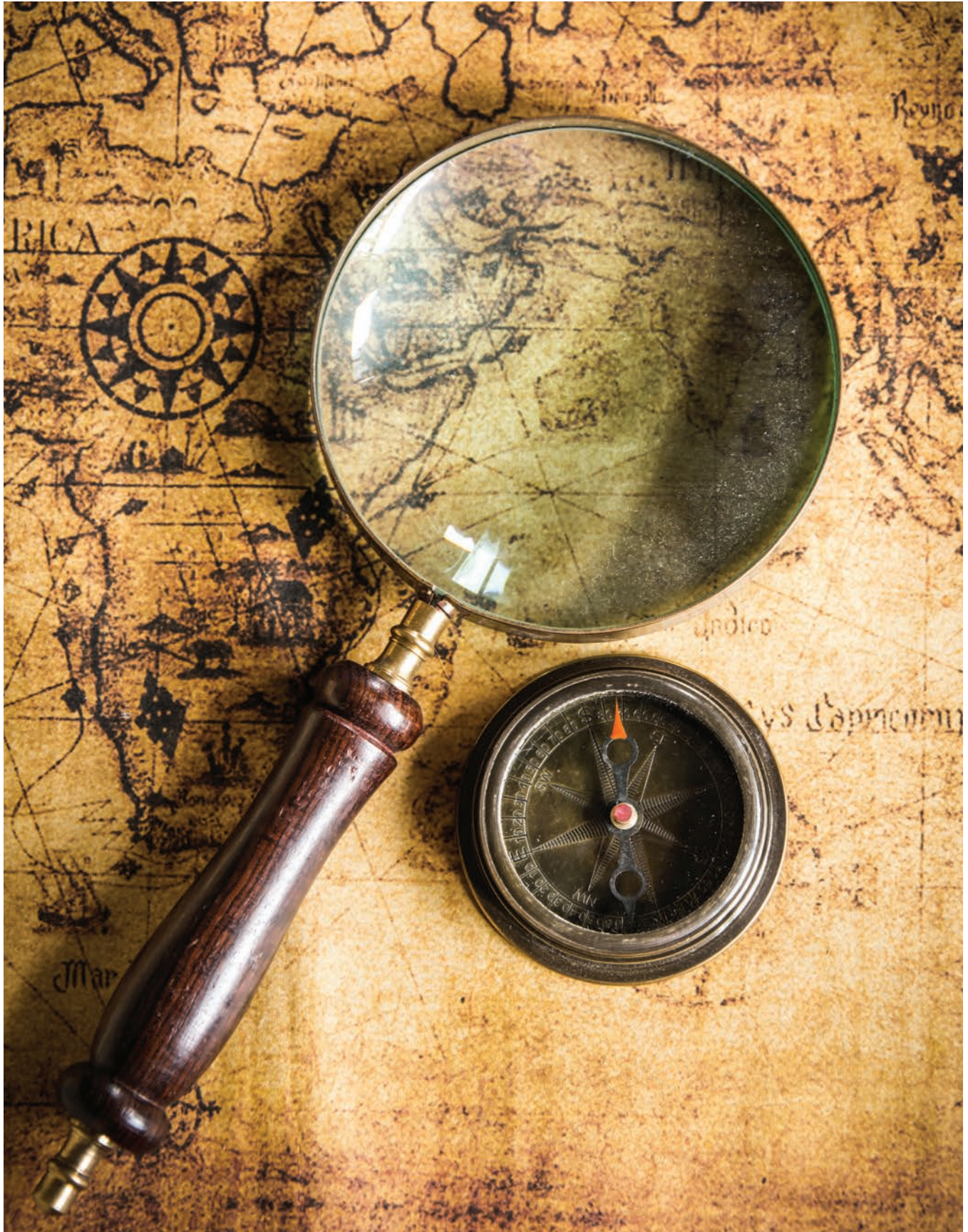




Start with the Chart

This innovative tool can guide your marketing plans in the aftermath of tax reform.

BY ROBBIE PETRILLO & KEVIN DONOVAN

You've surely heard colleagues in the pension field complain about the Tax Cuts and Jobs Act (TCJA), claiming it has discouraged employers from sponsoring retirement plans. While there is an ounce of truth to this sentiment, it's not quite time for TPAs to roll over and die.

Yes, the rules of the game have changed, creating new challenges for all of us. But this is an opportunity to separate the great from the good.

Consider the great Michael Jordan. If the rules of basketball were changed during his career, do you think he would have become lousy all of a sudden? Our money's on "No." He would have made the proper adjustments and found a way to dominate once again.

TPAs must also adjust in order to dominate in 2018.

This article focuses on the Tax Cuts and Jobs Act's impact on how TPAs market retirement plans. As you surely

have read, the new tax law brought with it two components that have sent a collective shiver down the backs of TPAs: reduced tax rates and a new deduction made available to owners of pass-through entities (IRC §199A deduction).

THE TCJA MAY CHANGE THE WAY PENSION CONTRIBUTIONS ARE VIEWED

Consider David, a 100% shareholder in an S Corporation. On the surface, it would seem that both of the above components disincentivize David from contributing to a qualified retirement plan. David might say: "If my tax rate is lower now, why not reduce my pension contribution, resulting in more taxable pass-through income today? That income will be taxed at my new and lower rate, and the increase in my pass-through income will act to increase my §199A deduction."

There is a lot of truth to this comment, presenting a considerable challenge for TPAs. Great TPAs in 2018 will find a way to overcome this challenge.

A REDEFINED TARGET MARKET

Clients like tax deductions; if they didn't, they wouldn't hire us! So our clients and their CPAs will be trying to maximize this new §199A deduction.

The first step to marketing plans post-tax reform is understanding:

- how a business owner's §199A deduction is calculated;
- where the §199A deduction begins to phase out; and
- the advanced retirement plan strategies that can be leveraged to maximize the §199A deduction.

These concepts are too complex to explain fully in this article; they are better detailed in lengthy whitepapers or at industry conferences. All of the technical information you absorb about IRC §199A, however, will lead you to the same conclusion: While some business owners now have less of a tax incentive to contribute to a pension plan, other business owners now have more tax incentive than ever before.

The latter group is your new target market.

START WITH THE CHART

The nearby chart will be your beacon as you and your firm's marketers navigate through 2018 and beyond. It summarizes the potential deduction power of a taxpayer's pension contribution at various taxable income amounts, both pre- and post-tax reform. The chart is a heat map, with your better prospects in green and your weaker prospects in pink. Study it, memorize it, share it, respect it.

SECTION 1: Below the Threshold Amount

For taxpayers in Section 1 with lower taxable income levels, the deduction power of a pension contribution is lower than it was before the TCJA. In other words, a dollar that they contribute to a pension plan in 2018 will likely yield less than the dollar-

for-dollar deduction they've received in prior years. The deduction is diluted because the pension contribution will likely reduce their pass-through income, meaning their §199A deduction will be reduced since it is essentially calculated as a percentage of pass-through income. All else being equal, this is not good for the taxpayer.

SECTION 2: Phase-out Range

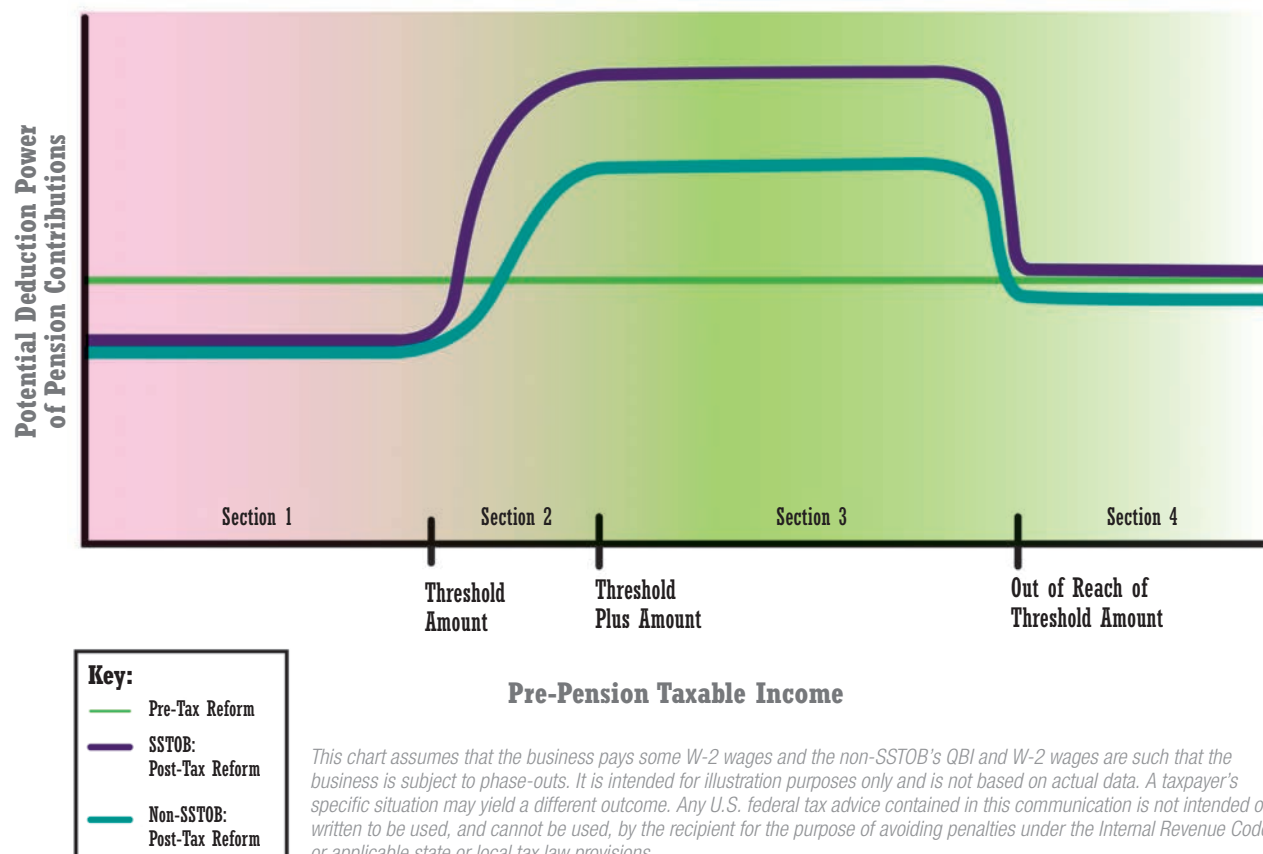
The deduction power of a pension contribution begins to climb at a certain amount of taxable income, referred to as the Threshold Amount (\$315,000 for those married filing jointly and \$157,500 for those filing single or married filing single). The deduction power eventually exceeds the pre-TCJA baseline and continues to climb until taxable income reaches

what we refer to as the Threshold Plus Amount (where taxable income exceeds the threshold by \$100,000 for those married filing jointly and by \$50,000 for those filing single or married filing single).

Section 2 is the phase-out range, where taxpayers begin to lose a portion of their valuable §199A deduction. If the taxpayer's business is considered to be a Specified Service Trade or Business (SSTOB;) (defining this group is tricky and is outside the scope of this article), they lose their §199A deduction at an accelerated rate as compared to a non-SSTOB, and lose it entirely at the Threshold Plus Amount.

Taxpayers who fall in Section 2 can make a pension contribution in an amount that that knocks their taxable income back down to their Threshold

The Power of Pension Contributions Post-Tax Reform



Amount. Doing so acts to maximize their §199A deduction, as it eliminates any phase-out. This means a dollar contributed to the pension plan in 2018 will yield *more* than the dollar-for-dollar deduction that they received in prior years. What an amazing planning opportunity this is!

SECTION 3: Phase-out Complete

Taxpayers in Section 3 are in the best position to contribute to a pension plan! From a tax deduction standpoint, there has *never* been more of an incentive to make a pension contribution. Just like a Section 2 taxpayer, a Section 3 taxpayer should consider making a pension contribution in an amount that knocks their taxable income back down to their Threshold Amount, thus eliminating any §199A deduction phase-out.

Notice how the SSTOB line is higher than the non-SSTOB line. Remember, the phase-out for an SSTOB is more aggressive than that for a non-SSTOB. Therefore, an owner of an SSTOB is extremely incentivized to make a pension contribution that eliminates their phase-out, even more so than an owner of a non-SSTOB.

SECTION 4: Super-high Earners

Section 4 contains your super-high earners; they continue to be great prospects. These are the folks whose taxable income is so far above the threshold that no pension contribution would be large enough to knock their taxable income back down to their Threshold Amount (e.g., a doctor with \$900,000 of pass-through income and a maximum defined benefit plan contribution of only \$165,000).

Section 4 taxpayers in an SSTOB, like our doctor, will never even sniff the §199A deduction. Therefore, a dollar that they contribute to a pension plan in 2018 will yield a dollar-for-dollar deduction, just as in years past. Depending on facts and circumstances, some Section 4 taxpayers in a non-SSTOB may never become *fully* phased out of their

§199A deduction. That's why the non-SSTOB line dips slightly below the pre-tax reform baseline in Section 4. These folks will probably still benefit from making pension contributions, just as in years past.

TAKEAWAYS FROM THE CHART

The chart yields the following five marketing tips for selling retirement plans in the aftermath of the TCJA.

1. Target Taxpayers in Sections 2, 3 and 4 of the Chart

Thanks to IRC §199A, the pension plan has never been a more valuable tax planning tool for these individuals than it is now.

2. Change the Message for Section 1 Taxpayers

TPAs serving small- to medium-sized employers have long focused primarily on the tax benefits of retirement plan contributions for the business owner. Those tax benefits are certainly still available post-tax reform; however, they are likely diluted for a Section 1 taxpayer. That said, when communicating with a prospect or client in Section 1, the time has come to go all-in on the other benefits that an employer-sponsored retirement plan offers, such as:

- Employee recruitment
- Employee retention
- Employee incentivization
- Planned savings for the business owner
- Potential protection from creditors

3. Collaborate with CPAs

In the first weeks and months of 2018, CPAs were buried under heaps of 2017 tax work. Meanwhile, you were boning up on the new tax law, specifically IRC §199A. You have a several-month head start on many CPAs. Be a resource for them! Share this chart with them. Go through your list of mutual clients and ask for the CPAs' help in determining the section of the chart they each fall into, and plan accordingly.

4. Teach Financial Advisors How to Spot Planning Opportunities

Many TPAs consider financial advisors to be one of their strongest referral sources. By educating them about IRC §199A and how to spot a planning opportunity, you're empowering them to not only refer you more business, but also how to refer the right type of business to you.

5. Attend at Least Four Technical Sessions on IRC §199A

This doesn't necessarily sound like a marketing strategy, but it is! IRC §199A is quite complex, so every time you see a new presentation, you will learn and retain something new. You want to get to a point where you are comfortable talking about IRC §199A off the cuff. This will come in handy at networking events, in sales presentations, in meetings with clients and their CPAs, etc.

CONCLUSION

Yes, the Tax Cuts and Jobs Act introduced IRC §199A, changing the name of the game for TPAs. Great TPAs will consider this an opportunity, as opposed to a threat. The pension can be more powerful than ever before; it's just about focusing on the right target market. Remember: Start with the chart! **PC**



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