

# TAX AND ANNUITY MILESTONES

Date	Milestones
<b>Before 10/21/1979</b>	<ul style="list-style-type: none"> <li>▪ Variable annuity contracts received a step-up in basis at client's death.</li> <li>▪ Favorable tax treatment lost upon exchange of contract.</li> </ul>
<b>8/14/1982</b>	<p><b>Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)</b></p> <ul style="list-style-type: none"> <li>▪ FIFO replaced with LIFO.</li> <li>▪ 5% early withdrawal charge applied on pre-59½ distributions.</li> <li>▪ Notable exception to 5% early withdrawal charge for contracts held for 10 years prior to distribution.</li> <li>▪ Collateral assignment taxable to the owner.</li> <li>▪ Exchange of contract—no effect.</li> </ul>
<b>1/18/1985</b>	<p><b>Deficit Reduction Act of 1984 (DEFRA)</b></p> <ul style="list-style-type: none"> <li>▪ 10-year protection from 5% early withdrawal charge eliminated.</li> <li>▪ Death of annuity holder triggers a payout.</li> <li>▪ Death options: 1) Defer five years. 2) Distribute over beneficiary's life expectancy.</li> <li>▪ Exchange of contract—above rule applies to new contract upon exchange of contract.</li> </ul>
<b>2/28/1986</b>	<p><b>Tax Reform Act of 1986 (TRA '86)</b></p> <ul style="list-style-type: none"> <li>▪ 5% early withdrawal charge increased to 10%.</li> <li>▪ Internal Revenue Code (IRC) 72(u) established no tax deferral for an annuity owned by a non-natural entity.</li> <li>▪ May not apply to some trust-owned annuities.</li> </ul>
<b>4/22/1987</b>	<p><b>Part of TRA of 1986</b></p> <ul style="list-style-type: none"> <li>▪ Annuity owned by joint owner: distribution required at first death.</li> <li>▪ Annuity issued to non-natural owner: death or change of primary annuitant triggers a payout.</li> <li>▪ Gift of annuity: immediate taxation to the owner.</li> </ul>
<b>10/21/1988</b>	<p><b>Technical and Miscellaneous Revenue Act of 1988 (TAMRA)</b></p> <p><b>Aggregation rule</b>—all annuities under the same ownership issued by the same carrier in the same calendar year will be treated as one annuity contract for tax and penalty purposes.</p>

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8/5/1997	<p><b>Tax Reform Act of 1997 (TRA '97)</b></p> <ul style="list-style-type: none"> <li>▪ Reduced several federal taxes in the United States.</li> <li>▪ Provided tax relief for education savings and retirement accounts.</li> </ul>
12/30/1998	<p><b>Conway v. Commissioner</b></p> <p>Holds that a partial exchange of an existing annuity contract to a new annuity contract at an unrelated insurance company qualifies as a nontaxable exchange under IRC Section 1035.</p>
6/7/2001	<p><b>Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)</b></p> <p>Lowered tax rates and simplified retirement and qualified plan rules for IRAs, SEP-IRAs, SIMPLE IRAs, 401(k) plans, and 403(b) plans.</p>
2002	<p><b>1035 Exchange Updates: Revenue Ruling 2002-75</b></p> <p>Holds that a transfer of an entire annuity contract into another pre-existing annuity contract qualifies as a tax-free exchange under IRC Section 1035.</p>
2002	<p><b>IRC 72(t) and 72(q) Updates: Revenue Ruling 2002-62</b></p> <ul style="list-style-type: none"> <li>▪ One-time change option.</li> <li>▪ Interest rate up to 120% of the federal mid-term rate.</li> <li>▪ Modification clarification.</li> </ul>
5/28/2003	<p><b>Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)</b></p> <ul style="list-style-type: none"> <li>▪ Accelerated certain tax changes passed in the EGTRRA.</li> <li>▪ Increased the exemption amount for the individual alternative minimum tax (AMT).</li> <li>▪ Lowered taxes of income from dividends and capital gains from 20% to 15%.</li> </ul>
5/17/2006	<p><b>Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)</b></p> <ul style="list-style-type: none"> <li>▪ Provided an extension of the reduced tax rates on capital gains and dividends.</li> <li>▪ Provided a temporary extension of the alternative minimum tax (AMT) deduction.</li> </ul>
8/17/2006	<p><b>Pension Protection Act of 2006 (PPA)</b></p> <ul style="list-style-type: none"> <li>▪ Many retirement and qualified plan rules of EGTRRA made permanent.</li> <li>▪ Non-spousal beneficiary of employer-sponsored qualified plan can roll his or her share to an inherited IRA.</li> <li>▪ Pension plan reform.</li> <li>▪ Direct rollovers from employer-sponsored qualified plans upon meeting a triggering event to a Roth IRA (effective 1/1/2008).</li> </ul>
7/23/2007	<p><b>403(b) Final Regulations</b></p> <ul style="list-style-type: none"> <li>▪ Requirement that a 403(b) program be maintained pursuant to a written plan document (effective 1/1/2009).</li> <li>▪ Employers have increased responsibility for maintaining plan compliance.</li> <li>▪ 403(b) exchanges limited after 9/24/2007. Contracts established and exchanges prior to 9/25/2007 may be exempt.</li> </ul>

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2007	<p><b>1035 Exchange Updates: Revenue Ruling 2007-24</b></p> <ul style="list-style-type: none"> <li>▪ Clarified IRC Section 1035.</li> <li>▪ Holds that if a taxpayer receives a check from an insurance company that's drawn against the taxpayer's nonqualified annuity contract, and the taxpayer endorses the check to a second insurance company for a second nonqualified annuity contract, this does not constitute a tax-free exchange under Section 1035; the check will be considered a distribution to the taxpayer, and is taxable to the extent it reflects income from the first contract.</li> </ul>
5/5/2008	<p><b>1035 Exchange Updates: Revenue Ruling 2008-24</b></p> <p>Clarified circumstances under which a partial exchange of an annuity contract would be treated as a tax-free exchange.</p>
1/1/2010	<p><b>Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)</b></p> <p>Taxpayers with modified adjusted gross income (MAGI) more than \$100,000 can now convert to a Roth IRA.</p>
9/27/2010	<p><b>Small Business Lending Fund Act of 2010</b></p> <ul style="list-style-type: none"> <li>▪ Allows in-plan Roth conversion within 401(k), 403(b), and 457(b) plans.</li> <li>▪ Allows for Roth after-tax deferral within 457(b) plans.</li> <li>▪ Allows nonqualified annuity owners to annuitize a portion of a contract while leaving the rest of the assets in the contract to continue tax-deferred growth.</li> </ul>
12/17/2010	<p><b>Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010</b></p> <ul style="list-style-type: none"> <li>▪ Extended ordinary income-tax brackets initially provided by EGTRRA on 6/7/2001.</li> <li>▪ Extended capital gains and dividend tax rates initially provided by JGTRRA on 5/28/2003.</li> <li>▪ Made the estate tax exclusion amount \$5,000,000 for individuals dying in 2011 or 2012.</li> <li>▪ Set the estate tax maximum at 35% for 2011 and 2012.</li> <li>▪ Extended the exclusion for qualified charitable distributions initially provided by the Pension Protection Act of 2006 to tax years 2010 and 2011.</li> </ul>
8/12/2011	<p><b>Notice 2011-68</b></p> <p>Provides guidance on the taxation of annuity and life insurance contracts with a long-term care (LTC) insurance feature (originally discussed in the PPA), confirming that partial 1035 exchanges from a deferred annuity to a qualified LTC insurance contract can qualify as tax-free exchanges under IRC Section 1035, while acknowledging that there is future guidance still to come.</p>

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10/24/2011	<p><b>1035 Exchange Updates: Revenue Procedure 2011-38</b></p> <ul style="list-style-type: none"> <li>▪ Applies to all partial 1035 exchanges going forward (Rev. Proc. 2008-24 applies to partial 1035 exchanges prior to this date).</li> <li>▪ The following are the changes concerning distributions after a partial 1035 exchange under Rev. Proc. 2011-38 treatment: <ul style="list-style-type: none"> <li>• Waiting period is changed from 12 months to 180 days.</li> <li>• Exceptions outlined in Rev. Proc. 2008-24 no longer apply.</li> <li>• Tax treatment may not be as harsh under the new rules.</li> <li>• Exception to the 180-day waiting period applies where the client annuitizes for 10 years or more, or for one or more lives (the same “Partial Annuitization Rule” outlined in the Small Business Lending Fund Act).</li> </ul> </li> </ul>
1/1/2013	<p><b>Health Care Reform Act</b></p> <p>Creates the following tax increases that may impact certain high-income earners:</p> <ul style="list-style-type: none"> <li>▪ A 0.9% increase to the existing Medicare surtax assessed on wages and self-employment income in excess of threshold amounts.</li> <li>▪ A new 3.8% federal tax that is assessed for certain high-income earners with “net investment income” (e.g., taxable interest and dividends, long- and short-term capital gains, annuity income, passive rental income, and royalties).</li> </ul>
1/2/2013	<p><b>American Taxpayer Relief Act of 2012</b></p> <ul style="list-style-type: none"> <li>▪ Increased the highest income-tax bracket to 39.6%.</li> <li>▪ Permanent AMT changes.</li> <li>▪ Increased the long-term capital gains and qualified dividends highest tax rate to 20%.</li> </ul>
6/6/2013	<p><b>United States v. Windsor: Same-Sex Marriage Federally Recognized</b></p> <ul style="list-style-type: none"> <li>▪ The United States Supreme Court ruled that Section 3 of the Defense of Marriage Act (DOMA), which excluded same-sex partners from the federal definition of marriage, was unconstitutional.</li> <li>▪ This federal recognition of same-sex marriage impacted several items, including, but not limited to: <ul style="list-style-type: none"> <li>• Estate taxes.</li> <li>• Health insurance for spouses of federal workers.</li> <li>• Social Security survivor benefits.</li> <li>• Spousal benefits on retirement plans.</li> </ul> </li> </ul>
7/26/2013	<p><b>Private Letter Ruling (PLR) 201330016: Post-Death 1035 Exchanges</b></p> <ul style="list-style-type: none"> <li>▪ The IRS ruled that an exchange of an annuity contract by a beneficiary after the owner’s death qualifies for tax-free treatment under IRC Section 1035. The ruling applied only to this particular exchange.</li> <li>▪ It’s important to note that PLRs apply only to the taxpayers that requested them and cannot be relied on or used as precedent.</li> </ul>

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7/2/2014	<p><b>Qualified Longevity Annuity Contract (QLAC) Final Regulations</b></p> <p>Allows QLAC assets to be excluded from the account balance used to determine the required minimum distribution (RMD) and provide a guaranteed income payment that must begin no later than age 85.</p>
1/1/2015	<p><b>Indirect IRA-to-IRA Rollover Rule Update: Bobrow v. Commissioner and IRS Announcement 2014-15</b></p> <ul style="list-style-type: none"> <li>▪ Only one indirect IRA-to-IRA rollover can be processed in any 12-month period, regardless of the number of IRAs an individual owns.</li> <li>▪ Prior to this ruling, the IRS indicated that a taxpayer could generally process an indirect IRA-to-IRA rollover once every 12 months from any IRA.</li> </ul>
12/18/2015	<p><b>PATH Act of 2015</b></p> <ul style="list-style-type: none"> <li>▪ Qualified charitable distributions from IRAs are made permanent.</li> <li>▪ Rollovers from IRAs or employer-sponsored retirement plans to SIMPLE IRAs allowed after two-year participation requirement is met.</li> </ul>
12/22/2017	<p><b>Tax Cuts and Jobs Act of 2017 (TCJA)</b></p> <ul style="list-style-type: none"> <li>▪ Reduces tax rates for individuals and businesses.</li> <li>▪ Increases the standard deduction and child tax credit.</li> <li>▪ Eliminates the deduction for personal exemptions.</li> <li>▪ Reduces the deduction for mortgage interest.</li> <li>▪ Caps the deduction for state and local income tax, sales tax, and property taxes at \$10,000.</li> <li>▪ Increases the alternative minimum tax and estate taxable thresholds.</li> <li>▪ Repeals the ability to recharacterize Roth conversions.</li> </ul>
12/20/2019	<p><b>Original SECURE Act (SECURE 1.0)</b></p> <ul style="list-style-type: none"> <li>▪ Enables fiduciaries to limit their potential liability when selecting an annuity provider if the insurer becomes unable to satisfy its financial obligations under the annuity contract.</li> <li>▪ Increases RMD age from 70½ to 72.</li> <li>▪ Removes age cap of 70½ to contribute to traditional IRA (with earned income).</li> <li>▪ Changes distribution options for individual beneficiaries of retirement plans by <ul style="list-style-type: none"> <li>• Eliminating the lifetime stretch for Designated Beneficiaries and replacing it with a ten-year payout, and</li> <li>• Introducing the Eligible Designated Beneficiary as a category of individual beneficiaries who still have the option to stretch.</li> </ul> </li> <li>▪ Permits in-service distributions at age 59½, reducing it from age 62 for pension plans and age 70½ for governmental 457(b) plans.</li> </ul>

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12/29/2022	<p><b>SECURE ACT 2.0</b></p> <ul style="list-style-type: none"> <li>▪ Increases RMD age from 72 to 73 for anyone born between 1951 and 1959, and then again from 73 to 75 for anyone born in 1960 or later.</li> <li>▪ Introduces Roth SEP IRAs and Roth SIMPLE IRAs.</li> <li>▪ Allows defined contribution plans to provide participants with the option of receiving matching and nonelective contributions on a Roth basis.</li> <li>▪ Eliminates participant (pre-death) RMDs from Designated Roth Accounts (employer Roth plans).</li> <li>▪ Allows a portion of an IRA annuity payment to offset the owner’s RMD(s) from his or her other IRA(s) that still have an account balance.</li> <li>▪ Repeals the 25% contribution limit and allows up to \$200,000 (indexed) from a defined contribution account balance to purchase a QLAC.</li> <li>▪ Reduces the penalty for failure to take RMDs from 50% to 25%, with a further reduction to 10% if the RMD failure is corrected in a timely manner.</li> <li>▪ Increases catch-up limits for individuals ages 60 to 63.</li> <li>▪ Requires catch-up contributions to be made to Roth for higher wage earners.</li> </ul>
7/19/2024	<p><b>SECURE Act 1.0 Final Regulations</b></p> <ul style="list-style-type: none"> <li>▪ Rewrites the rules for trusts as retirement plan beneficiaries.</li> <li>▪ Finalizes the “at-least-as-rapidly” rule requiring Designated Beneficiaries subject to the ten-year payout to take annual RMDs in years 1 – 9 when they inherit the retirement plan from an owner who dies on or after the required beginning date (RBD) (that is, an owner who was taking RMDs).</li> </ul>
1/5/2025	<p><b>Social Security Fairness Act</b></p> <ul style="list-style-type: none"> <li>▪ Repeals the windfall elimination provision (WEP) that reduced social security retirement benefits for workers with non-covered government pensions.</li> <li>▪ Repeals the government pension offset (GPO) that reduced spousal dependent and survivor benefits for spouses of workers with non-covered government pensions.</li> </ul>
7/4/2025	<p><b>One Big Beautiful Bill Act (OBBBA)</b></p> <ul style="list-style-type: none"> <li>▪ Makes permanent the existing individual income tax brackets and rates from the TCJA of 2017.</li> <li>▪ Permanently increases the standard deduction, which was doubled under the TCJA of 2017.</li> <li>▪ Limits the tax benefit of itemized deductions, capping the value of such deductions at 35%.</li> <li>▪ Increases the SALT deduction from \$10,000 to \$40,000 (which increases by 1% each year through 2029) for years 2025 -2029, with an income phaseout.</li> <li>▪ Sets the estate, gift and generation-skipping transfer tax exemptions at \$15 million per individual beginning in 2026 (indexed annually for inflation).</li> <li>▪ Creates a floor and ceiling for charitable contribution deductions for individuals who itemize deductions, beginning in 2026.</li> <li>▪ Allows a \$1,000 charitable deduction for cash gifts to public charities for individuals who take the standard deduction.</li> <li>▪ Creates a new temporary \$6,000 deduction for individuals who are age 65 or older, with an income phaseout. Expires after 2028.</li> </ul>

For more information about tax and annuity milestones,  
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