Neither VALIC nor its financial advisors or other representatives give legal or tax advice. Applicable laws and regulations are complex and subject to change. Any tax statements in this material are not intended to suggest the avoidance of U.S. federal, state or local tax penalties. For legal or tax advice concerning your situation, consult your attorney or professional tax advisor. No representation or warranty, express or implied, is made by VALIC or its affiliates as to the completeness of the information in this document. VALIC shall not be liable for any loss or damage caused by the use of, or reliance on, the tax, accounting, legal, investment or financial items contained in this presentation.
About this seminar

Presentation
> Provides education
> Includes action steps
> Encourages financial planning

Workbook
> Reinforces major presentation points
> Includes worksheets and self-analysis quizzes
> Provides opportunity for feedback

Individuals should seek independent tax advice regarding their circumstances.
Agenda

1 Tax basics
2 Tax allocation
3 Tax planning
4 Tax-favored investing
5 Action steps

Individuals should seek independent tax advice regarding their circumstances.
“This is too difficult for a mathematician. It takes a philosopher. The hardest thing in the world to understand is the income tax.”

—Albert Einstein
Tax basics

**What are taxes?**

Fees paid to the government

- Government operations
- Law enforcement
- Public works
- Public education
- Military
- Healthcare
- Science, energy and environment
- Social services (Medicaid, Medicare, Social Security)


Individuals should seek independent tax advice regarding their circumstances.
### Tax basics

#### Types of taxes

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income taxes</td>
<td>Food</td>
</tr>
<tr>
<td>Corporate taxes,</td>
<td>Fuel</td>
</tr>
<tr>
<td>Estate (inheritance) tax</td>
<td>Tobacco and alcohol</td>
</tr>
<tr>
<td>Gift tax</td>
<td>Entertainment</td>
</tr>
</tbody>
</table>

Individuals should seek independent tax advice regarding their circumstances.
Tax basics

Did you know ...

> Individual income taxes represent the largest component of Americans’ tax bills\(^1\)

> In 2012, Americans spent more in taxes than they did on food, clothing and housing combined\(^2\)

> Individual taxpayers will spend an average of eight hours—and over $20 billion*—filing taxes\(^3\)

\(^*\)$120 per each of 169 million individual tax returns.

Sources: \(^1\)Tax Freedom Day Facts. Tax Foundation. \(^2\)Tax Foundation, BEA data on consumption. \(^3\)The Cost of Tax Compliance. The Tax Foundation, September 11, 2014.

Individuals should seek independent tax advice regarding their circumstances.
Tax allocation

“The only things certain in life are death and taxes.”

–Benjamin Franklin
Individuals should seek independent tax advice regarding their circumstances.

Tax allocation

Tax Freedom Day®

The first day of the year when U.S. workers have earned enough money to pay their total tax bill


Individuals should seek independent tax advice regarding their circumstances.
## Federal marginal income tax brackets

<table>
<thead>
<tr>
<th>Single</th>
<th>2014</th>
<th>2015</th>
<th>Tax Rate</th>
<th>Married, filing jointly</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2014</strong></td>
<td>$0</td>
<td>$0</td>
<td>10%</td>
<td><strong>2014</strong></td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$0 - $9,075</td>
<td>$0</td>
<td>$0</td>
<td>10%</td>
<td>$0 - $18,150</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$9,075 - $36,900</td>
<td>$9,225</td>
<td>$9,225</td>
<td>15%</td>
<td>$18,150 - $73,800</td>
<td>$18,450</td>
<td>$18,450</td>
</tr>
<tr>
<td>$36,900 - $89,350</td>
<td>$37,450</td>
<td>$37,450</td>
<td>25%</td>
<td>$73,800 - $148,850</td>
<td>$74,900</td>
<td>$74,900</td>
</tr>
<tr>
<td>$89,350 - $186,350</td>
<td>$90,750</td>
<td>$90,750</td>
<td>28%</td>
<td>$148,850 - $226,850</td>
<td>$151,200</td>
<td>$151,200</td>
</tr>
<tr>
<td>$186,350 - $405,100</td>
<td>$189,300</td>
<td>$189,300</td>
<td>33%</td>
<td>$226,850 - $405,100</td>
<td>$230,450</td>
<td>$230,450</td>
</tr>
<tr>
<td>$405,100 - $406,750</td>
<td>$411,500</td>
<td>$411,500</td>
<td>35%</td>
<td>$405,100 - $457,600</td>
<td>$411,500</td>
<td>$464,850</td>
</tr>
<tr>
<td>$406,750+</td>
<td>$413,200+</td>
<td>$413,200+</td>
<td>39.6%</td>
<td>$457,600+</td>
<td>$464,850+</td>
<td></td>
</tr>
</tbody>
</table>


Individuals should seek independent tax advice regarding their circumstances.
Tax allocation

**Withholding**

- Wages
- Social Security tax – provides guaranteed income in retirement
- Medicare tax – provides access to healthcare services in retirement

Individuals should seek independent tax advice regarding their circumstances.
Tax allocation

### Taxation of Social Security benefits

<table>
<thead>
<tr>
<th>Status</th>
<th>Not taxable</th>
<th>Up to 50% of benefits taxable (at marginal tax rate)</th>
<th>Up to 85% of benefits taxable (at marginal tax rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing as individual; Combined income of $25,000 or less</td>
<td>$25,000 to $34,000</td>
<td>more than $34,000</td>
<td></td>
</tr>
<tr>
<td>Filing joint return; Combined income of $32,000 or less</td>
<td>Over $32,000 to $44,000</td>
<td>more than $44,000</td>
<td></td>
</tr>
</tbody>
</table>

### Adjusted Gross Income

- + Nontaxable Interest
- + ½ Social Security Benefits

**Combined Income**


Individuals should seek independent tax advice regarding their circumstances.
Tax allocation

Alternative minimum tax (AMT)
Ensures that taxpayers pay at least a minimum amount of tax

<table>
<thead>
<tr>
<th>Status</th>
<th>AMT income taxable at 26%</th>
<th>AMT income taxable at 28%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing separately</td>
<td>Under $92,700</td>
<td>Over $92,700</td>
</tr>
<tr>
<td>Single, head of household, surviving spouse, married filing jointly</td>
<td>Under $185,400</td>
<td>Over $185,400</td>
</tr>
</tbody>
</table>

Individuals should seek independent tax advice regarding their circumstances.
# Capital gains taxes

## Tax on the profit received from the sale of a non-inventory asset

<table>
<thead>
<tr>
<th>Capital gains</th>
<th>Holding period</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>12 months or less</td>
<td>Ordinary income</td>
</tr>
<tr>
<td>Long-term</td>
<td>Longer than 12 months</td>
<td>0% if taxable income falls in the 10% or 15% marginal tax brackets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15% if taxable income falls in the 25%, 28%, 33%, or 35% marginal tax brackets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20% if taxable income falls in the 39.6% marginal tax bracket</td>
</tr>
</tbody>
</table>


Individuals should seek independent tax advice regarding their circumstances.
Tax allocation

Net investment income tax (NIIT)

Tax on the profit received from the sale of a non-inventory asset

<table>
<thead>
<tr>
<th>Status</th>
<th>Income thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly or qualifying widow(er)</td>
<td>$250,000</td>
</tr>
<tr>
<td>Single or head of household</td>
<td>$200,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$125,000</td>
</tr>
</tbody>
</table>

Distributions from certain qualified contracts (such as traditional and Roth IRAs) are generally not subject to NIIT. Clients should consult their tax advisors regarding their specific situation.


Individuals should seek independent tax advice regarding their circumstances.
3 Tax planning
What is the goal of tax planning?

To implement a strategy to minimize tax burden

1. Reduce your taxable income
2. Increase your deductions
3. Capitalize on tax credits

Individuals should seek independent tax advice regarding their circumstances.
1. Reduce your taxable income

**Adjusted Gross Income (AGI)**

**Gross Income**
- Wages
- Interest
- Capital gains
- Retirement accounts

**Qualifying adjustments**
- Contributions to IRAs and employer sponsored retirement plans
- Certain qualified higher education costs
- Health savings account (HSA)
- Student loan interest
- Moving expenses

**Adjusted Gross Income (AGI)**

These are examples and not a comprehensive list.

Individuals should seek independent tax advice regarding their circumstances.
Tax planning

2. Increase your deductions

<table>
<thead>
<tr>
<th>Standard deductions</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Filing status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single filer</td>
<td>$6,200</td>
<td>$6,300</td>
</tr>
<tr>
<td>Head of household</td>
<td>$9,100</td>
<td>$9,250</td>
</tr>
<tr>
<td>Married, filing jointly</td>
<td>$12,400</td>
<td>$12,600</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$6,200</td>
<td>$6,300</td>
</tr>
</tbody>
</table>

| Itemized deductions         |        |        |
|-----------------------------|        |        |
| Charitable contributions    |        |        |
| Medical expenses            |        |        |
| State taxes                 |        |        |
| Home mortgage interest      |        |        |
| Business expenses           |        |        |


For a complete list of itemized deductions, see the current year Schedule A for Form 1040.

Individuals should seek independent tax advice regarding their circumstances.
Tax planning

3. Take advantage of tax credits

Reduces actual amount of taxes owed

> Child and dependent care
> Earned income
> Higher education
> Adoption

Go to www.irs.gov for more tax information


Individuals should seek independent tax advice regarding their circumstances.
### Tax planning

#### Calculating your taxes

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross income</td>
</tr>
<tr>
<td>2</td>
<td>- Adjustments</td>
</tr>
<tr>
<td></td>
<td>= Adjusted Gross Income (AGI)</td>
</tr>
<tr>
<td>3</td>
<td>- Greater of standard or itemized deductions</td>
</tr>
<tr>
<td>4</td>
<td>- Personal and/or dependent exemptions</td>
</tr>
<tr>
<td></td>
<td>= Taxable Income</td>
</tr>
<tr>
<td>5</td>
<td>x Tax rate</td>
</tr>
<tr>
<td></td>
<td>= Total taxes due</td>
</tr>
</tbody>
</table>

Salary, part-time wages, investment income, rental income and alimony received, etc.

Pretax retirement contributions, tuition and education expenses, student loan interest, moving expenses and Social Security benefits.

**Itemized**: Charitable contributions, medical expenses, state taxes, and home mortgage interest.

**Standard**: For 2014, $6,300 single/$12,600 married filing jointly.

**Personal**: For 2014, $4,000. Dependent exceptions: Child tax credit, dependent care tax credit, earned income tax credit.

Refer to the federal marginal tax bracket table.


Information is based on calculating taxes if you are not subject to the Alternative Minimum Tax.

Individuals should seek independent tax advice regarding their circumstances.
Test your tax knowledge

1. Which of the following is deductible from your gross income for federal income tax purposes?
   - Credit card interest
   - Home mortgage interest
   - Rent
   - All of the above

2. A $1,000 tax deduction is better than a $1,000 tax credit.
   - True
   - False

3. The bigger your tax refund, the better.
   - True
   - False

Individuals should seek independent tax advice regarding their circumstances.
Tax-favored investing
Tax-favored investing

How will you spend your tax refund?

Save or invest: 61%
Pay off debt/spend on necessities: 39%

Source: TD Ameritrade Survey: Americans Plan to Save and Invest This Year’s Tax Refund. TD Ameritrade, Inc., February 20, 2014.

Individuals should seek independent tax advice regarding their circumstances.
Individuals should seek independent tax advice regarding their circumstances.

Tax-favored investing

Types of tax-favored investments

| Tax-deferred       | > Qualified retirement plans  
|                   |   - Employer plans  
|                   |   - IRAs  
|                   | > Annuities  
|                   | > Life insurance  

| Tax-exempt         | > Government bonds  
|                   | > Certain money market funds  
|                   | > Higher education savings vehicles  

Qualified retirement plans
Employer plans
IRAs
Annuities
Life insurance
Government bonds
Certain money market funds
Higher education savings vehicles
Individuals should seek independent tax advice regarding their circumstances.

Tax-favored investing

Qualified employer-sponsored retirement plans

- Your pretax contributions grow tax-deferred
- Compounding interest and dividends may boost growth
- More time in the market means more time for potential growth
- Even small amounts today can potentially increase over time

Income taxes are payable upon withdrawal; federal restrictions and a 10% federal early withdrawal penalty may apply to withdrawals prior to age 59½.
Individuals should seek independent tax advice regarding their circumstances.

# Tax-favored investing

## Qualified employer-sponsored retirement plans

### Paycheck comparison

<table>
<thead>
<tr>
<th>Paycheck items</th>
<th>Taxable account</th>
<th>Tax-qualified savings plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly salary</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Pretax contribution</td>
<td>$0</td>
<td>$200</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$3,000</td>
<td>$2,800</td>
</tr>
<tr>
<td>Federal marginal income taxes*</td>
<td>$750</td>
<td>$700</td>
</tr>
<tr>
<td>Total take-home pay</td>
<td>$2,250</td>
<td>$2,100</td>
</tr>
<tr>
<td>After-tax savings</td>
<td>$200</td>
<td>$0</td>
</tr>
<tr>
<td>Net take-home pay</td>
<td>$2,050</td>
<td>$2,100</td>
</tr>
</tbody>
</table>

This table is hypothetical and only an example. It does not reflect any specific investment and is not a guarantee of future income. Keep in mind that, for tax-qualified plans, taxes are payable upon withdrawal and a 10% federal early withdrawal penalty may apply. Lower maximum capital gains rates may apply to certain investments in a taxable account (subject to IRS limitations, capital losses may also be deducted against capital gains), which would reduce the differences between the performance in the accounts shown in the chart. You should consider your personal investment horizon and current and anticipated income tax brackets when making investment decisions as they may further impact the results of the comparison.

*25% marginal tax rate and single filer.

Individuals should seek independent tax advice regarding their circumstances.
# Tax-favored investing

## Qualified employer-sponsored retirement plans

### Contribution limits

<table>
<thead>
<tr>
<th></th>
<th>403(b)</th>
<th>457(b)</th>
<th>Combination plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual contribution limit</strong></td>
<td>$18,000</td>
<td>$18,000</td>
<td>$36,000</td>
</tr>
<tr>
<td><strong>Special catch-up contribution</strong></td>
<td>$3,000 (15-year rule)</td>
<td>Up to $18,000* (3 years prior to retirement age)</td>
<td>$21,000</td>
</tr>
<tr>
<td><strong>Age-based catch-up</strong></td>
<td>$6,000</td>
<td>$6,000*</td>
<td>$6,000 (Assuming 457(b) special catch-up is selected)</td>
</tr>
<tr>
<td><strong>Maximum deferral</strong></td>
<td>$27,000</td>
<td>$36,000</td>
<td>$63,000</td>
</tr>
</tbody>
</table>

*You can only select either the special catch-up contribution or age-based catch-up contribution for 457(b) plans.*

Individuals should seek independent tax advice regarding their circumstances.
Individuals should seek independent tax advice regarding their circumstances.

**Tax-favored investing**

**Qualified retirement plans**

**The advantages of a tax-qualified plan**

This chart compares the hypothetical results of contributing $100 each month to (1) a taxable account and (2) a tax-qualified retirement account. Bear in mind that a $100 pretax contribution to a tax-qualified account has a current cost of $75 (assuming a 25% income tax bracket) and also reduces current taxable income. Lower maximum capital gains rates may apply to certain investments in a taxable account (subject to IRS limitations, capital losses may also be deducted against capital gains) which would reduce the differences between performance in the accounts shown in the chart. The chart assumes an 8% annual rate of return. Fees and charges, if applicable, are not reflected in this example and would reduce the amount shown. Income taxes on tax-deferred accounts are payable upon withdrawal. Federal restrictions and a 10% federal early withdrawal penalty may apply to withdrawals prior to age 59½. This information is hypothetical and only an example. It does not reflect the return of any investment and is not a guarantee of future income. Investing involves risk including the possible loss of principal. Individuals should seek independent tax advice regarding their circumstances.
## Tax-favored investing

### Qualified retirement plans

#### Roth and traditional IRAs

<table>
<thead>
<tr>
<th>Features</th>
<th>Traditional IRA</th>
<th>Roth IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductibility</td>
<td>Yes, subject to a deduction phase-out based on coverage by a retirement plan at work and adjusted gross income</td>
<td>No</td>
</tr>
<tr>
<td>Tax advantages</td>
<td>Earnings grow tax deferred</td>
<td>Qualified distributions are tax-free if certain conditions are met*</td>
</tr>
<tr>
<td>Age limit</td>
<td>Contributions are not allowed after the taxpayer attains age 70½</td>
<td>None</td>
</tr>
<tr>
<td>Distributions</td>
<td>May be taken at any time</td>
<td>May be taken at any time</td>
</tr>
<tr>
<td></td>
<td>May be subject to penalty for early withdrawal while taxpayer is under the age of 59½</td>
<td>If qualified, distributions are tax-free and penalty free</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May be subject to penalties on taxable portion of withdrawals while taxpayer is under the age of 59½</td>
</tr>
<tr>
<td>Required Minimum</td>
<td>Yes; must begin by April 1 of year following the year taxpayer turns 70½; beneficiaries also subject to RMD rules</td>
<td>Owners not subject to RMD rules; however, beneficiaries are subject to RMD, although special rules may apply for a spousal beneficiary</td>
</tr>
<tr>
<td>Distribution (RMD)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Generally, a qualified Roth distribution is one that (1) is withdrawn after the end of the five-year period beginning with the first year in which the Roth IRA was established, and (2) is after age 59½; death or disability or satisfies the first-time homebuyer exception.

Individuals should seek independent tax advice regarding their circumstances.
Tax-favored investing

Qualified retirement plans

Rollovers

Qualified plan (Direct rollover)

- No current income taxes
- No penalties
- No withholding

IRA or new qualified plan

Qualified plan (Indirect rollover)

- Lump-sum cash distribution
- 20% withholding

60 days to roll over

- No current income taxes
- No penalties
- Replace 20% withholding

After 60 days

- Taxes are due on entire distribution
- 10% federal early withdrawal penalty may apply if under age 59½*

*The 10% federal early withdrawal penalty does not apply to 457(b) plans.

Individuals should seek independent tax advice regarding their circumstances.
Individuals should seek independent tax advice regarding their circumstances.

Tax-favored investing

**Annuities**

**Features**

- Tax-deferred growth
- After-tax contributions
- No contribution limits
- Taxes payable at withdrawal
- Fixed and variable
Life insurance

Policies must comply with IRS requirements to qualify as a life insurance contract. Total premiums in the policy cannot exceed funding limitations under IRC section 7702. If the policy is classified as a modified endowment contract (see section IRC 7702A), withdrawals or loans are subject to regular income tax and an additional 10% tax penalty may apply if taken prior to age 59 1/2. Distributions will reduce policy values and may reduce benefits. Availability of policy loans and withdrawals depend on multiple factors including but not limited to policy terms and conditions, performance, and fees or expenses.

Individuals should seek independent tax advice regarding their circumstances.
**Tax-favored investing**

## Real estate

<table>
<thead>
<tr>
<th>Principal residence</th>
<th>Tax-deductible interest</th>
<th>Exclusion on capital gains</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Investment property</th>
<th>Expenses are deductible</th>
<th>No exclusion for gains</th>
<th>Tax-deferred in-kind exchange may be available</th>
</tr>
</thead>
</table>
Tax-favored investing

Government bonds

| U.S. Treasury bonds | > Exempt from state and local taxes  
|                     | > Interest is subject to federal taxes  
|                     | > May not keep pace with inflation  

| Municipal bonds | > Exempt from federal taxes  
|                | > Tied to interest rate fluctuations  
|                | > Varying levels of safety  

Tax-free yield

\[
\frac{\%}{\left(100\% - \text{tax rate}\right)} = \text{Tax-equivalent yield}
\]

Individuals should seek independent tax advice regarding their circumstances.
Tax-favored investing

**Education accounts**

**Coverdell savings accounts / Section 529 plans**

- After-tax contributions
- Tax-deferred growth
- Tax-free distributions for qualifying expenses
- Contribution limits

Individuals should seek independent tax advice regarding their circumstances.
5 Action steps
Action steps

- Check your withholding
- Review retirement account contributions
- Do a paycheck comparison
- Keep accurate records for tax filing purposes

Individuals should seek independent tax advice regarding their circumstances.
Action steps

Consider working with a VALIC financial advisor

> A financial advisor can help you:

− Prioritize your investment goals
− Determine the time horizon needed to achieve your goals
− Determine a financial strategy to meet your goals

For more than half a century VALIC has helped Americans plan for and enjoy a secure retirement.

Individuals should seek independent tax advice regarding their circumstances.
Individuals should seek independent tax advice regarding their circumstances.

Action steps

Some of the benefits of financial planning are:

> Provides a big picture view of current financial situation

> Helps identify your financial goals and objectives

> Allows you to understand the impact of your decisions

> Offers you a course of action needed to achieve your financial goals

> Ensures your goals stay on track, if reviewed regularly
Action steps

Financial 360 Plan

> What are the five major risks in retirement?

- Inflation
- Longevity
- Investment
- Healthcare
- Withdrawal

Individuals should seek independent tax advice regarding their circumstances.
Individuals should seek independent tax advice regarding their circumstances.
This information is general in nature and may be subject to change. All companies mentioned, their employees, financial professionals and other representatives are not authorized to give legal, tax or accounting advice. Applicable laws and regulations are complex and subject to change. Any tax statements in this material are not intended to suggest the avoidance of U.S. federal, state or local tax penalties. For advice concerning your individual circumstances, consult a professional attorney, tax advisor or accountant.

Securities and investment advisory services are offered through VALIC Financial Advisors, Inc., member FINRA, SIPC and an SEC-registered investment advisor.

Annuities issued by The Variable Annuity Life Insurance Company. Variable annuities distributed by its affiliate, AIG Capital Services, Inc., member FINRA.

Individuals should seek independent tax advice regarding their circumstances.
THANK YOU

Tax Planning