

ImagiSOFT, Inc.

Tale of Two Tax Returns Presentation

The following presentation is a standard feature of ImagiSOFT's Split Annuity software, The Flexible Income Stream. The presentation is part of the software and may be used by currently licensed users.

This presentation, and all other materials produced by ImagiSOFT's Split Software is copyright 2008, ImagiSOFT, Inc., all rights reserved.

For information about ImagiSOFT's Split Annuity Software please contact:

ImagiSOFT, Inc.

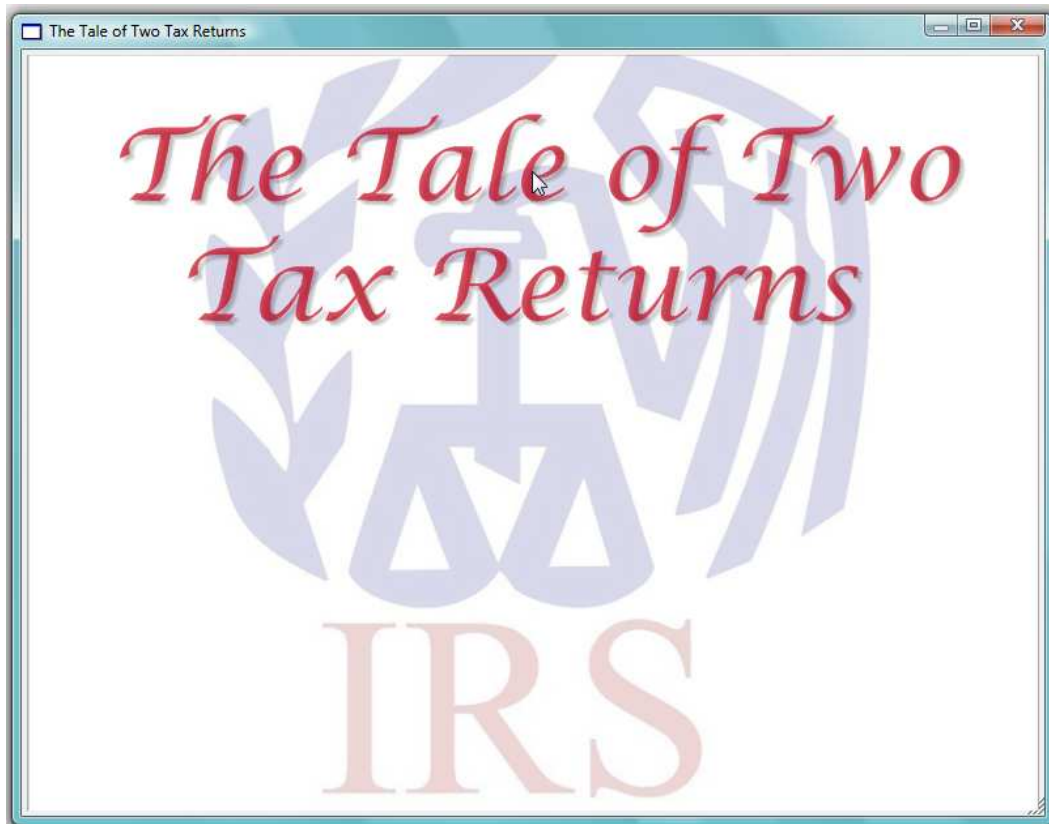
PO Box 13208

Albuquerque, NM 87192

(877) 510-4702

tech.support@imagisoft.com

Download a free 7 day trial: <http://www.imagisoft.com/setup/setupsplit.exe>




The licensed user's name appears here

The Tale of Two Tax Returns

Disclaimer

Michael J. Prestwich does not give tax or legal advice. This presentation is intended to inform you of some of the available financial planning options that annuity products may provide as a precursor or adjunct to seeking legal and tax advice in implementing any of the options presented. Your attorney and/or accountant should be consulted regarding the legal and tax implications of the options presented in this presentation.



The Tale of Two Tax Returns

Before Planning



1040 Before Tax Planning

7 Wages, salaries, tips, etc.

0



This is the story of a retired couple. Since they no longer work, they do not receive a W-2 form from their employer. Their story may be similar to yours.

1040 Before Tax Planning

7 Wages, salaries, tips, etc.

0

8 a Taxable Interest

15,500




They have been able to build their savings to over \$400,000. They do not want to lose this money, so they keep it in banks, credit unions, money market funds, bonds, and other safe money havens where it may earn a competitive interest rate.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500




They use less than half of this interest for living expenses. The rest is left to accumulate. Unfortunately, ALL the interest is taxed.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000




During their employment, they wisely set aside as much money as they could into their 401(k) plans, which now provide a secure retirement income.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000




In general, income from pensions, profit-sharing plans, IRA plans, and 401(k) plans are fully taxable.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000



The combined Social Security income for this married couple.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000
b Taxable Amount	25,500

A married couple filing a joint return who makes more than \$32,000, must pay taxes on up to 85% of their Social Security income. It is a complicated formula, but, in general, the lower the income, the lower the tax on Social Security.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000
b Taxable Amount	25,500
15 Total Income	81,000

Line 15 is the total of all the above income sources.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000
b Taxable Amount	25,500
15 Total Income	81,000
24 Standard Deduction	-12,800

Like many retired couples, their home is paid off, so they take the Standard Deduction.

The Tale of Two Tax Returns

1040 Before Tax Planning

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000
b Taxable Amount	25,500
15 Total Income	81,000
24 Standard Deduction	-12,800
26 Exemptions	-6,800
27 Taxable Income	61,400

Subtract \$3,400 times two exemptions, and calculate the tax bill . . .

The Tale of Two Tax Returns

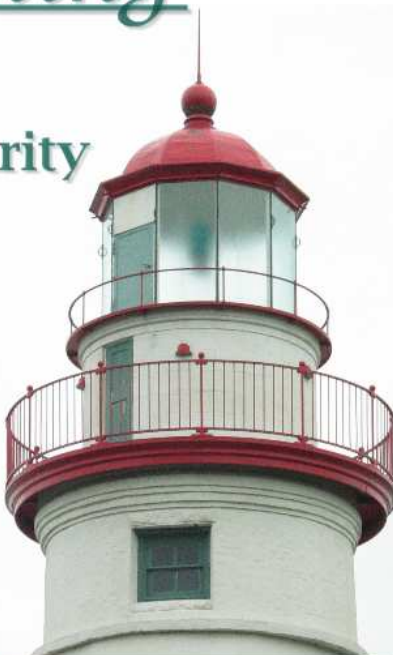
1040 Before Tax Planning

7 Wages, salaries, tips, etc.		0
8 a Taxable Interest		15,500
12 a Pensions and annuities		40,000
b Taxable Amount		40,000
14 a Social Security benefits		30,000
b Taxable Amount		25,500
15 Total Income		81,000
Pay This Amount		
24 Standard Deduction		-12,800
26 Exemptions		-6,800
27 Taxable Income		61,400
28 Tax		8,431

The Tale of Two Tax Returns

Before Planning


	\$40,000 401(k)	
	+30,000 Social Security	
	+6,000 Interest	
	\$76,000 Subtotal	
	- 8,431 Taxes	
	\$67,569	
<i>Annual After-tax Income</i>		



The Tale of Two Tax Returns

Question:

If you were in a similar situation, and you could legally reduce your taxes — without sacrificing the safety of your funds, would you make the necessary changes to do it?



The Tale of Two Tax Returns

Problem:

7	Wages, salaries, tips, etc.	0
8 a	Taxable Interest	15,500
12 a	Pensions and annuities	40,000
	b Taxable Amount	40,000
14 a	Social Security benefits	30,000
	b Taxable Amount	25,500
15	Total Income	81,000

How does one reduce the amount on Line 15 . . .

The Tale of Two Tax Returns

Problem:

7 Wages, salaries, tips, etc.	0
8 a Taxable Interest	15,500
12 a Pensions and annuities	40,000
b Taxable Amount	40,000
14 a Social Security benefits	30,000
b Taxable Amount	25,500
15 Total Income	81,000

\$67,569

... without decreasing their After-tax Income?

The Tale of Two Tax Returns

After Planning



The Tale of Two Tax Returns

Tax Reduction Strategy #1

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	40,000
b Taxable Amount	40,000	40,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	15,775
15 Total Income	81,000	56,275

*Reduce the Taxable Interest from \$15,500 to \$500.
This is done by moving most of the money in taxable savings accounts to tax-deferred annuity accounts.*

The Tale of Two Tax Returns

Tax Reduction Strategy #1

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	40,000
b Taxable Amount	40,000	40,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	15,775
15 Total Income	81,000	56,275

*Notice how reducing the Taxable Interest by \$15,000
also reduces the Social Security Taxable Amount by
nearly \$10,000!*

The Tale of Two Tax Returns

Tax Reduction Strategy #1

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	45,500	500
12 a Pensions and annuities	40,000	40,000
b Taxable Amount	40,000	40,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	15,775
15 Total Income	81,000	56,275

The Income Tax on \$56,275 is \$3,500 lower than it is on \$81,000. Now let's explore a second strategy .

The Tale of Two Tax Returns

Tax Reduction Strategy #2

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	45,500	500
12 a Pensions and annuities	40,000	25,000
b Taxable Amount	40,000	25,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,250
15 Total Income	81,000	29,750

Reduce the annual income from retirement plans from \$40,000 to \$25,000.

The Tale of Two Tax Returns

Tax Reduction Strategy #2

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	45,500	500
12 a Pensions and annuities	40,000	25,000
b Taxable Amount	40,000	25,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,250
15 Total Income	81,000	29,750

Reducing the retirement plan income by \$15,000 also reduced the Social Security Taxable Amount to \$4,250. Line 15 is now only \$29,750 — more than a \$50,000 reduction.

The Tale of Two Tax Returns

Tax Reduction Strategy #2

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	45,500	500
12 a Pensions and annuities	40,000	25,000
b Taxable Amount	40,000	25,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,250
15 Total Income	81,000	29,750

The tax on \$29,750 is only about \$1,000 — a tax savings of over \$7,000. However, the Annual After-tax Income is now short by \$13,000. Let's examine a third strategy . . .

The Tale of Two Tax Returns

Tax Reduction Strategy #3

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	39,000
b Taxable Amount	40,000	26,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,750
15 Total Income	81,000	31,250

Purchase an annuity that will provide an income of \$14,000 per year.

The Tale of Two Tax Returns

Tax Reduction Strategy #3

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	39,000
b Taxable Amount	40,000	26,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,750
15 Total Income	81,000	31,250

Of the \$14,000 annual income, only \$1,000 is taxable. This is because \$13,000 is a return of the money they previously had in a savings account, and this money has all ready been taxed.

The Tale of Two Tax Returns

Tax Reduction Strategy #3

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	39,000
b Taxable Amount	40,000	26,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,750
15 Total Income	81,000	31,250

These safe, legal, strategies have reduced their Line 15, "Total Income" by nearly \$50,000.

The Tale of Two Tax Returns

1040 After Tax Planning

7 Wages, salaries, tips, etc.	0	0
8 a Taxable Interest	15,500	500
12 a Pensions and annuities	40,000	39,000
b Taxable Amount	40,000	26,000
14 a Social Security benefits	30,000	30,000
b Taxable Amount	25,500	4,750
15 Total Income	81,000	31,250
\$7,263 in Tax Savings		
24 Standard Deduction	-12,800	-12,800
26 Exemptions	-6,800	-6,800
27 Taxable Income	61,400	11,650
28 Tax	8,431	1,168

After Planning

\$25,000	401(k)
+30,000	Social Security
+14,000	Annuity
<u>\$69,000</u>	Subtotal
- 1,168	Taxes
<u>\$67,832</u>	

Annual After-tax Income



In Summary


- Annuities are safe, flexible, financial products.



The Tale of Two Tax Returns

In Summary


- Annuities are safe, flexible, financial products.
- Many annuities pay competitive after-tax interest rates, often guaranteed for a substantial period of time.



The Tale of Two Tax Returns

In Summary

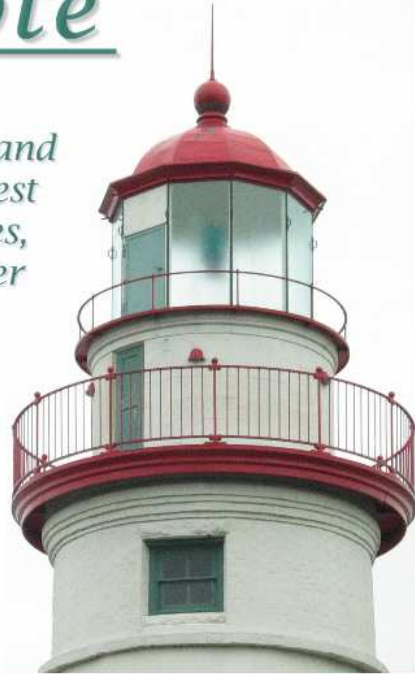
- Annuities are safe, flexible, financial products.
- Many annuities pay competitive after-tax interest rates, often guaranteed for a substantial period of time.
- Annuities may help you reduce your current income tax and increase your after-tax income.



A Final Note

Annuity products are complex. There are many different types, and each may contain different interest rates, guaranteed values, features, benefits, costs, fees, and surrender charges.

It is important to do business with a professional who offers many different product options and seeks to find the most suitable plan that meets your needs.



As an Annuity Professional, I always explain the

- 1) All the product features of each annuity I sell*
- 2) Tax impact that each annuity may have for you and beneficiaries*
- 3) Projected rates of return and the certainty of those rates*
- 4) Purpose of each annuity product*
- 5) Liquidity features of each annuity product*
- 6) Age the you must reach before you can get your money without penalty*
- 7) Fees and costs associated with each annuity product*

