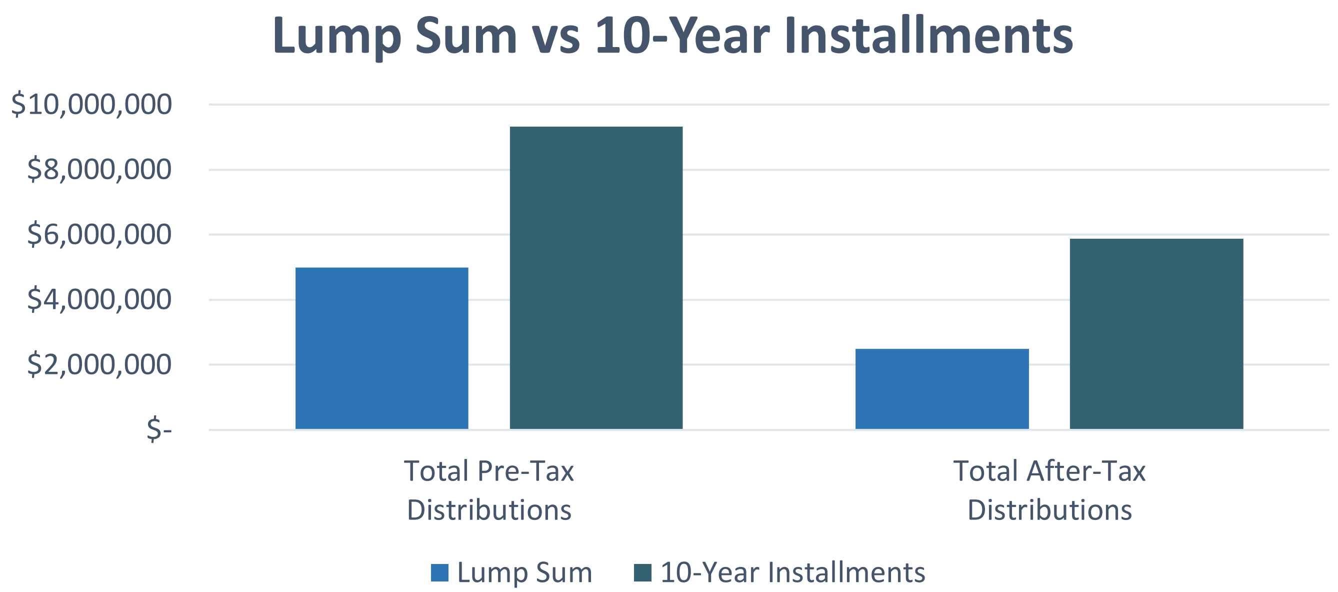
NOLAN FINANCIAL

State Income Tax Comparison – NQDC Distribution

- 55-year old executive contributing to NQDC plan while living and working in CA.
- Projected NQDC account balance of $5M at retirement at age 60.
- Executive plans to retire to TX, which has no state income tax.
- Current distribution option is lump sum at retirement. Full amount of the distribution is subject to CA state income taxes even though the executive will receive the lump sum distribution after moving to TX.
- By electing to change the distribution option to 10 annual installments, the executive will instead be taxed in the state in which the distributions are received instead of the state in which the compensation was earned and deferred.
- Changing the distribution option also requires the start date of the distributions to be deferred by a minimum of 5 years.
- By deferring payment by 5 years, the projected NQDC balance is projected to grow from $5M at age 60 to $7M at age 65.
- Rather than a $5M lump sum payment at age 60, the executive is projected to receive 10 annual installments of $933,139 beginning at age 65.



- Total Pre-Tax Distributions - Lump Sum: $5,000,000 Installments: $9,331,393
- Total After-Tax Distributions - Lump Sum: $2,485,000 Installments: $5,878,778

- **$665,000** of CA state taxes saved
- Installments result in **$1,590,890** higher total after tax payments on a present value basis at a 4% discount rate.

Assumptions: *37% Federal tax rate; 13.3% CA State tax rate; 7% rate of return on NQDC account balance; 4% discount rate.*