Tax-smart investing with tax-free municipal bonds

Ease your tax bite with municipal bonds

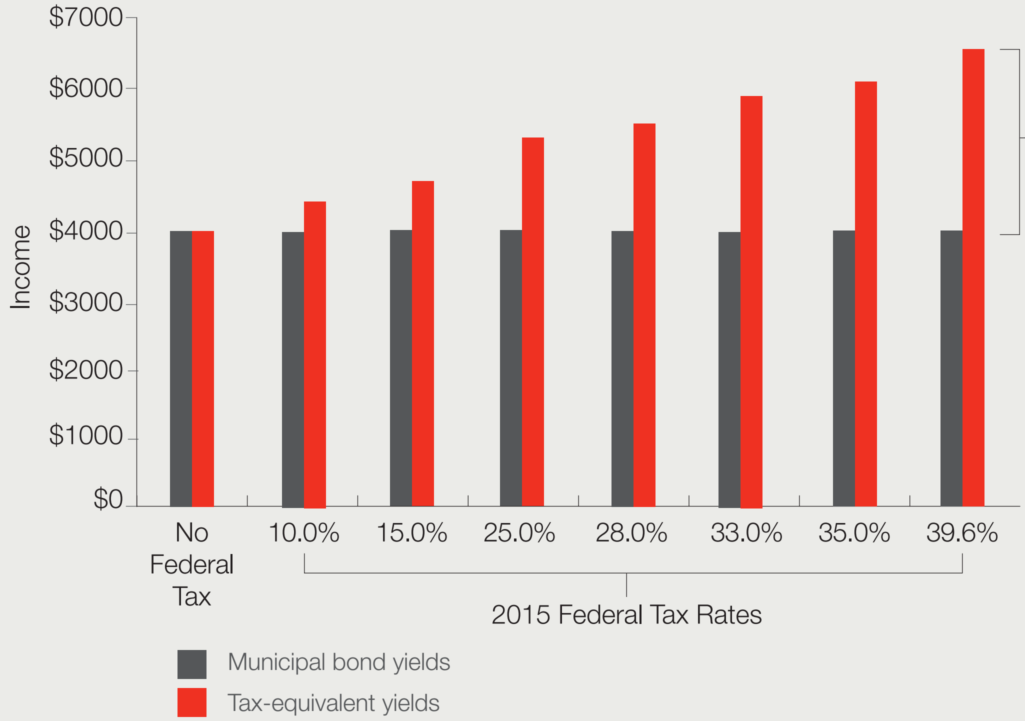
There is nothing like tax season to help you realize it's not always what you make that matters but what you keep. Municipal bonds can be an important part of a tax-smart strategy that helps investors manage wealth, preserve principal, and generate attractive after-tax returns. With a taxable bond, you'll need to make more to earn what you would with a tax-free municipal bond, all else being equal. So why pay more in taxes if you don't have to?

How tax-equivalent yields work

Make sure you're comparing apples to apples and not apples to oranges. Tax-equivalent yields help level the playing field so you can compare bonds with similar credit quality and maturity.

Tax-equivalent yield measures how much pretax income you need to earn on a taxable bond to equal what you would get with a comparable tax-free municipal bond.

With municipal bonds, the higher your tax rate, the bigger your potential tax savings.



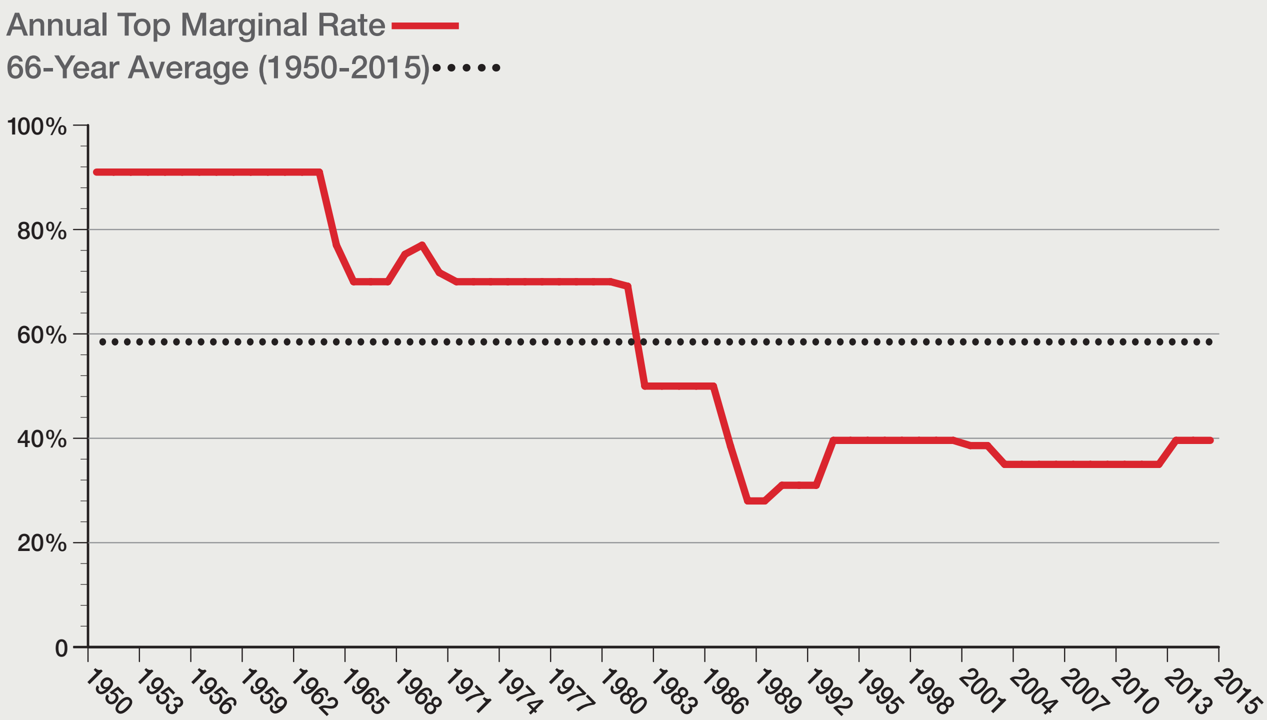
Based on a hypothetical investment of $100,000, an investor in the 39.6% federal income tax bracket would need to generate $6,622.52 in income (that's $2,622.52 additional income needed) to get the same $4,000 after-tax yield on an equivalent municipal bond investment.

Source: Transamerica.

The chart reflects a hypothetical return on investment assuming 2015 federal tax rates. The chart is intended for illustrative purposes only and is not intended to predict or project investment performance. This example is not intended to represent the performance of any Transamerica fund but is meant as an educational visual aid that illustrates municipal bond yields and tax-equivalent yields. Your own results will vary. State and local taxes, if any, fees, and expenses are not taken into account. If they were, certain results would be lower. Municipal bond funds are expected to be exempt from federal income tax. If a fund investor is resident in the state of issuance of the bonds held by the fund, interest dividends may also be free of state and local income taxes. Such interest dividends may be subject to federal and/or state alternative minimum taxes. The comparison results would vary if a different tax rate were used.

A 90% Income Tax Rate?

If you think taxes are high now, take a look at where they've been. It wasn't that long ago that the top federal marginal tax rate topped 90%. Here's a look back at where taxes have been since 1950. Keep more of what you earn with tax-free municipal bonds. As tax rates rise, the tax-free income provided by municipal bonds may become that much more attractive.



Source: IRS.gov & taxfoundation.org

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Mutual funds are subject to market risk, including loss of principal.

Municipal bond prices can rise or fall depending on interest rates. Interest rate changes generally have a greater effect on long-term bond prices. All municipal bonds carry credit risk that the issuer will default or be unable to make timely payments of interest and principal. Generally, lower-rated bonds carry more credit risk.

Investing in high-yield bond funds ("junk bonds") may be subject to greater volatility and risks as the income derived from these securities is not guaranteed and may be unpredictable, and the value of these securities tends to decline when interest rates increase. Interest rates may go up, causing the value of the fund's investments to decline. Changes in interest rates, the market's perception of the issuers, and the creditworthiness of the issuers may significantly affect the value of a bond.

Shares of the funds may only be sold by offering the funds' prospectus. You should consider the investment objective, risks, charges, and expenses of the fund carefully before investing. The prospectus contains this and additional important information regarding the fund. To obtain the prospectus and/or a summary prospectus, please contact your financial professional or go to transamerica.com. The prospectus should be read carefully before investing.

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