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|  | 2015 Tax Planning |
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| 12/15/2014 | It’s Year-End Tax Planning Time |
|  | As the end of the year approaches, we know you are busy with holidays, family, and travel, but it is also a good time to do some last minute tax planning. As a courtesy, we want to provide you with a few eleventh-hour tax tips you may find useful. Although tax planning is rarely fun, these strategies could help you keep more of your hard earned money. |

2015 Tax Planning

It’s Year-End Tax Planning Time

# Introduction

Year-end tax planning is rarely fun, but we’re glad not to have a repeat of the Fiscal Cliff and government shutdown dramas that marred the end of the past few years. 2013 and 2014 ushered in major changes to the tax code in the form of the American Taxpayer Relief Act of 2012 (ATRA), which ended the Fiscal Cliff standoff, and the Affordable Care Act (ACA), which went into effect in 2014 for most taxpayers. While these two laws did not significantly affect most Americans, wealthy taxpayers saw an increase in their marginal income and capital gains taxes, as well as two new Medicare taxes.[[1]](#endnote-1)

If you’re concerned about owing Uncle Sam this year, there may still be some last-minute moves that you can make to lower your tax burden. While our specialty lies in wealth management, we have worked with our CPA friends to compile these tips for you. Before acting on any of the advice in this communication, we suggest you consult with your personal tax professional. If you don’t have an accounting professional that you enjoy working with, please let us know and we will introduce you to one of our trusted associates.

The IRS recently announced its inflation adjustments for tax year 2015 and they are briefly summarized below:[[2]](#endnote-2)

|  |  |  |  |
| --- | --- | --- | --- |
| **Federal Income Tax Brackets 2014-2015** | | | |
|  |  | **2014** | **2015** |
| **25%**  **28%**  **33%**  **35%**  **39.6%** | **Single** | $36,900 - $89,350 | $37,450 - $90,750 |
| **Joint** | $73,800 - $148,850 | $74,900 - $151,200 |
| **Single** | $89,351 - $186,350 | $90,750 - $189,300 |
| **Joint** | $148,851 - $226,850 | $151,200 - $230,450 |
| **Single** | $186,351 - $405,100 | $189,300 - $411,500 |
| **Joint** | $226,851 - $405,100 | $230,450 - $411,500 |
| **Single** | $405,101 - $406,750 | $411,500 - $413,200 |
| **Joint** | $405,101 - $457,600 | $411,500 - $464,850 |
| **Single** | Over $406,750 | Over $413,200 |
| **Joint** | Over $457,600 | Over $464,850 |

Source: IRS.Gov

# Actions That COULD BE TAKEN

**To avoid headaches and penalties, mark your calendar with the following key dates:**

**January 15, 2015  
  
4th Quarter 2014 Estimated Tax Payment Due**

If you are self-employed or have other fourth-quarter income that requires you to pay quarterly estimated taxes, get them postmarked by January 15, 2015.

**April 15, 2015  
  
2014 Individual Tax Returns Due**

**Individual Tax Return Extension Form Due**If you can’t file your taxes on time, file your request for an extension by April 15 to push your deadline back to October 15, 2015.

**1st Quarter 2015 Estimated Tax Payment Due**

**Last Day to make a 2014 IRA Contribution**If you haven't already contributed fully to your retirement account for 2014, April 15 is your last chance to fund a traditional IRA or a Roth IRA. However, if you received a filing extension, you have until October 15 to contribute to a Keogh or SEP plan.

**June 15, 2015**

**2nd Quarter 2015 Estimated Tax Payment Due**

**September 16, 2015**

**3rd Quarter 2015 Estimated Tax Payment Due**

**October 15, 2015**

**Extended Individual Tax Returns Due**

If you received an extension on your 2014 tax return, it must be postmarked by October 15, 2015.

**Last Chance to Recharacterize 2014 Roth IRA Conversion  
I**f you converted a traditional IRA to a Roth during 2014 and paid taxes on the conversion on your 2014 return, this is the deadline for undoing the conversion.

Source: Intuit TurboTax 2014 Important Tax Dates

* **Get Organized**Now is an excellent time of year to get your financial house in order. Gather cash receipts to help you calculate possible deductions and miscellaneous payments. Do you have a hobby or activity that generates income? If so, any losses might also be eligible for deduction. Have you made home improvements? Charitable contributions? Get all of your documentation together early to make your life a little easier in April and consult a tax professional to discuss your personal situation.
* **Contribute the Maximum to Your Retirement Plan**You have until April 15, 2015 to make IRA contributions for 2014, but the sooner you get your money into the account, the sooner it has the potential to start growing tax-deferred. Making deductible contributions also reduces your taxable income for the year. In 2014 and 2015, you can contribute a maximum of $5,500 to an IRA, plus an extra $1,000 if you are 50 or older. This limit can be split between a traditional IRA and a Roth IRA if you desire, but the combined limit is still $5,500 or $6,500, respectively.[[3]](#endnote-3)
* **Check Your IRA Distributions**You are required to make minimum distributions from your traditional IRA by April 1st following the year in which you reach age 70 ½. So, if you turned 70 in August 2014, you’ll turn 70 ½ in March 2015, and will need to start taking RMDs April 1, 2016. Failing to take out enough triggers a 50% excise tax on the amount you should have withdrawn based on your age, life expectancy, and the amount in the account at the beginning of the year.[[4]](#endnote-4)
* **Fatten Your Employer-Sponsored Retirement Plan**  
  Tax-deferred investing is a smart choice because it allows your money to grow tax-free until you withdraw it. Maximize your 401(k), 403(b), 457, and TSP contributions, which are $17,500 or $23,000 if you will be age 50 or older in 2014, and will increase to $18,000 and $24,000, respectively, in 2015.[[5]](#endnote-5),[[6]](#endnote-6)

**Important Tax Issues & Updates for 2015**

**Healthcare Reform in 2014 and Beyond**

2014 saw major changes to healthcare in the U.S. Beginning in 2014, all Americans will be required to maintain health insurance and the IRS is responsible for monitoring compliance.

Starting in 2014, your W2 will report the value of your health plan to the IRS. This key figure will determine whether you are eligible for tax credits or penalties. You will not need to report this number as income on your tax return.

Taxpayers without health insurance (or coverage under someone else’s policy) will be assessed a penalty starting at $95 or 1% of income (whichever is greater) in 2014. This penalty will rise each year until it reaches 2.5% of income or $695 per person in 2016.

**Medical Expense Deductions**

The ACA increased the threshold for deducting medical expenses from 7.5% to 10% of your AGI in 2014. Now, someone earning $100,000 can only deduct medical expenses above $10,000 instead of $7,500.

However, the 10% rule is exempted for taxpayers (or their spouses) who are age 65 and over, who may continue to use the 7.5% rule through 2016.

**Alternative Minimum Tax (AMT) Updated for 2015**

Congress permanently indexed the AMT for inflation in 2013. For 2015 the IRS raised the AMT exemption amount to $53,600 for individuals and $83,400 for married couples filing jointly.

**PEP & Pease Updates for 2015**

PEP and Pease are two provisions that increase the tax burden on wealthy taxpayers by limiting personal exemptions and deductions.

The income threshold for both PEP and Pease is $258,250 for single filers and $309,900 for joint filers in 2015.

Sources: WSJ, Tax Foundation, Turbotax

* **Weigh the Benefits of Loss-Harvesting**In order to avoid paying capital gains taxes, many investors sell off investments such as stocks that have experienced losses in order to help offset any taxable gains realized during the year. If you think that you may have a heavy capital gains burden this year, talk to your tax professional and financial representative about whether loss harvesting may be a good strategy for you.[[7]](#endnote-7)
* **Pay Attention to Your FSA**  
  Remember that tax-free withdrawals can be taken from FSAs for qualified medical, dental, and child-care costs in 2015. Depending on your employer’s policies, you may lose any balance left in these accounts at the end of the year, so take advantage now by filling prescriptions early, making medical or dental appointments, or scheduling elective surgeries.

This is also the time of year when you may need to specify how much salary you’ll contribute to your flexible spending account. In 2015, the annual limit for employee contributions to sponsored health FSAs increases to $2,550 from $2,500 in 2014. The IRS also made an important change to FSA rules, and will allow employees with “Section 125 Cafeteria Plan” FSAs to either carry over up to $500 of their account balance or have a two and a half month grace period. The grace period would allow employees to use money from the previous tax year to cover qualified medical expenses until mid-March of the next year. Employers can allow employees to have either the carry-over provision or the grace period, but not both. Check with your employer to see whether they will allow the new rules to apply in the 2015 tax year.[[8]](#endnote-8)

* **Consider Accelerating Your Mortgage Payments**Unlike rent, which is paid in advance, mortgage payments represent money owed for the previous occupancy period. This means that your January 2015 mortgage statement is a bill for December’s payment and represents interest accrued in 2014, making it eligible for a tax break this year. By mailing that mortgage check in advance, you qualify for an additional deduction in 2014. It may be wise to pay it early in December so that your lender officially notes the payment to the IRS in 2014. Unfortunately, you can’t accelerate your mortgage payments for any other upcoming month because the IRS generally prohibits write-offs for prepaid interest. Keep in mind that everyone’s tax situation is different and accelerating your mortgage payments may not pay off if you expect to be subject to the Alternative Minimum Tax (AMT). If you are unsure, discuss the matter with your tax professional.[[9]](#endnote-9)
* **Go Green**Buyers of plug-in hybrids and electric cars benefit from a tax credit of $2,500 to $7,500, depending on the size of the battery in the car. The credits apply to plug-in hybrids purchased after December 31, 2009, though certain models may have been phased out based on sales quotas.[[10]](#endnote-10) In addition, some alternative energy improvements to your home may qualify for tax credits in 2014 and 2015.[[11]](#endnote-11)Check with a tax professional to find out which credits apply to your circumstances.
* **Be Charitable**A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. If the gifts are deductible, your tax savings reduces the actual cost of the donation. For example, if you are in the 33% tax bracket, the effective cost of a $100 donation is only $67. As your income tax bracket increases, the real cost of your charitable gift decreases, making contributions more attractive for those in higher brackets. For a person in the highest tax bracket, 39.6%, the actual cost is only about $60. Not only can the wealthy afford to give more, but they also receive a larger reward for giving. Typically, charitable donations are capped at 50% of your AGI, though limits of 20% or 30% may apply in some cases.[[12]](#endnote-12)
* **Give a Gift**This time of year, many people choose to donate items to charity instead of making a monetary contribution.Not only can donations save you money and prevent perfectly good items from getting wasted, but they can be deducted from your taxes as long as you get written documentation of the donation.  
    
  You can also pass money to loved ones tax-free each year. You can give up to the annual exclusion amount ($14,000 in 2014 and 2015) to any number of people every year, without facing any gift taxes. Recipients never owe income tax on the gifts.[[13]](#endnote-13) In addition to the annual gift amount, the IRS allows you to give up to $5.34 million (as of 2014) during your lifetime or as part of your estate without paying taxes. In 2015, the estate and gift tax exemption will rise to $5.43 million.[[14]](#endnote-14) This limit is indexed to inflation and will continue to rise each year, increasing the amount that you can gift without owing taxes on it.
* **Fund an Education**  
  The IRS offers taxpayers several credits and deductions to help offset the cost of education. The American Opportunity tax credit was extended through 2017 and allows you to claim qualified expenses up to $2,500 for 2015.[[15]](#endnote-15) Because a tax credit reduces your tax bill dollar-for-dollar, this basically means the government will give you up to $2,500 per year for each qualifying college student in your family. The Hope Scholarship Credit will allow you to claim qualified expenses up to a maximum of $2,500. You can deduct interest payments on student loans in 2015, also up to a maximum of $2,500. Keep in mind that income restrictions kick in for these credits, so check with your tax professional to see if you qualify.[[16]](#endnote-16)
* **Don’t Forget the New Medicare Taxes**Beginning in 2014, two new Medicare taxes went into effect. The first was a new 3.8% Medicare tax imposed on profits from the sale of investment property. This includes capital gains, dividends, interest payments and net rental income, though distributions from qualified retirement plans are exempt. The tax applies to wealthy individuals earning a gross income of $200,000 or more and joint filers with a combined gross income of $250,000. The second tax was a 0.9% tax applied to wages and compensation in excess of $200,000 for single taxpayers, and $250,000 for joint filers. These brackets are not indexed for inflation, so they will affect more taxpayers each year. If you’re in the affected income brackets, speak with your investment representative and accounting professional to discuss how the new taxes will affect your tax burden this year.[[17]](#endnote-17)

# COnclusion and Steps to Take

We hope you have found this report to be informative and that you will find some of these strategies useful as you go through your tax planning process this year. One of the ways we help our clients is by working hard to provide tax-smart investment strategies to minimize the impact Uncle Sam can have on your bottom line. In addition, we consider it our responsibility to educate you about things that could affect your financial future. If you have any questions about your taxes or how tax-efficient planning can help reduce your tax burden, please give us call. We also recommend that you speak with a qualified tax professional who can advise you on the specifics of your personal tax situation.

Sincerely,

*Walter Pardo*, **CWS®**, President

***Would someone you know benefit from receiving this communication? If so, call our office at 877-714-2362 to provide us with their contact information and we will be happy to send them a copy.***

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