WEALTH & RETIREMENT ADVISORS, LLC.

2016 TAX PLANNING

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It's Year-End Tax Planning Time

As the end of the year approaches, we know you might be 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.

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2016 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 other 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]

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 report, 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.

What's in store for 2016?

The IRS recently announced its inflation adjustments for tax year 2016 and they are briefly summarized below:[2]

Federal Income Tax Brackets 2015-2016

		2015	2016
25%	Single	$37,450 - $90,750	$37,650 - $91,150
	Joint	$74,900 - $151,200	$75,300 - $151,900
28%	Single	$90,750 - $189,300	$91,150 to $190,150
	Joint	$151,200 - $230,450	$151,900 - $231,450
33%	Single	$189,300 - $411,500	$190,150 - $413,350
	Joint	$230,450 - $411,500	$231,450 - $413,350
35%	Single	$411,500 - $413,200	$413,350 - $415,050
	Joint	$411,500 - $464,850	$413,350 - $466,950
39.6%	Single	$413,201+	$415,050+
	Joint	$464,850+	$466,950+

SOURCE: IRS.GOV

ACTIONS YOU COULD TAKE

☐ **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 reportable 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 Accounts**
You have until April 18 or 19, 2016 (depending on your state of residency) to make IRA contributions for 2015, 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 2015 and 2016, 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]

☐ **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 on August 10, 2015, you'll turn 70 ½ on February 10, 2016, and will need to take your first RMD by **April 1, 2017**. Thereafter, you'll need to take your RMD by December 31 each year. 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]

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

January 15, 2016

4th Quarter 2015 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, 2016

April 18/19, 2016

2015 Individual Tax Returns Due

Most taxpayers have until April 18 to file tax returns. Residents of Maine and Massachusetts have until April 19 to file returns in observance of Patriots Day on April 18.

Individual Tax Return Extension Form Due
If you can't file your taxes on time, file your request for an extension by April 18 or 19 to push your deadline back to October 17, 2016.

1st Quarter 2016 Estimated Tax Payment Due

Last Day to make a 2015 IRA Contribution
If you haven't already contributed fully to your retirement account for 2015, April 18 or 19 is your last chance to fund a traditional IRA or a Roth IRA. However, if you received a filing extension, you have until October 17 to contribute to a Keogh or SEP plan.

June 15, 2016

2nd Quarter 2016 Estimated Tax Payment Due

September 15, 2016

3rd Quarter 2016 Estimated Tax Payment Due

October 17, 2016

Extended Individual Tax Returns Due
If you received an extension on your 2015 tax return, it must be postmarked by October 17, 2016.

Last Chance to Recharacterize 2015 Roth IRA Conversion
If you converted a traditional IRA to a Roth during 2015 and paid taxes on the conversion on your 2015 return, this is the deadline for undoing the conversion.

Source: Intuit TurboTax 2015 Important Tax

- **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 $18,000 or $24,000 if you will be age 50 or older in both 2015 and 2016.[5]

- **Weigh the Benefits of Harvesting Losses**
  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 a tax expert and your financial professional about whether loss harvesting may be a good strategy for you.[6]

- **Pay Attention to Your FSA**
  Remember that you can take tax-free withdrawals from Flexible Spending Accounts for qualified medical, dental, and child-care costs in 2015 and 2016. 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 FSA. In 2016, the annual limit for employee contributions to sponsored health FSAs is $2,550.[7]

- **Consider Accelerating Your Mortgage Payments**
  Unlike rent, which you pay in advance for the current month, mortgage payments represent money owed for the previous period. Your January 2016 mortgage

Important Tax Issues & Updates for 2016

Supreme Court Decision on Same-Sex Marriage

The Supreme Court's 2015 ruling means that all state and federal agencies must recognize same-sex marriages as valid for tax purposes. The decision affects many tax and estate issues, including couples' ability to file joint income tax returns, transfer property, and receive inherited IRAs. Please consult tax, financial, and estate planning professionals for personal guidance.

ACA Penalties in 2016

2014 saw major changes to healthcare in the U.S. The Affordable Care Act requires all Americans to maintain health insurance. Taxpayers without health insurance (or coverage under someone else's policy) will be assessed a penalty of 2.5% of household income or $695 per person in 2016 (up to a maximum of the national average premium of a bronze plan or $2,085).

Medical Expense Deductions in 2016

The ACA increased the threshold for deducting medical expenses from 7.5% to 10% of your AGI in 2014. For example, 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 the end of 2016.

Alternative Minimum Tax (AMT) in 2016

Congress permanently indexed the AMT for inflation in 2013. For 2016 the IRS raised the AMT exemption amount to $53,900 for individuals and $83,800 for married couples filing jointly.

PEP & Pease in 2016

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 $259,400 for single filers and $311,300 for joint filers in 2016.

Sources: WSJ, Tax Foundation, Turbotax, Accounting Today

statement is actually a bill for December occupancy and represents interest accrued in 2015, making it eligible for a tax break this year. By mailing that mortgage check in advance, you may qualify for an additional deduction in 2015. It may be wise to pay it early in December so that your lender officially notes the payment to the IRS in 2015. 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.[8]

☐ **Be Charitable**

A gift to a qualified 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 of a $100 donation is only about $60. Typically, charitable donations are capped at 50% of your AGI, though lower limits may apply in some cases.[9]

☐ **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 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. Here are a few things you need to know about donating items:[10]

- You'll need a written acknowledgment from the charity for any donated item over $250.
- If you claim a deduction for an item worth over $500, you may need to include a qualified appraisal or be able to show that the item was in good working condition.
- If you donate a car, boat, or airplane to charity, special rules apply.

You can also pass money to loved ones tax-free each year. You can give up to the annual exclusion amount ($14,000 in 2015 and 2016) to as many people as you like every year, without facing any gift taxes. Recipients never owe income tax on the gifts.[11] In addition to the annual gift amount, the IRS allows you to give up to $5.43 million (as of 2015) during your lifetime or as part of your estate without paying taxes. In 2016, the estate and gift tax exemption will rise to $5.45 million.[12] This limit is indexed to inflation and will continue to rise each year, increasing the amount that you can gift to your loved ones without owing estate taxes.

- **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 in 2016.[13] Because a tax credit reduces your tax bill dollar-for-dollar, it means the government will give you up to $2,500 per year for each qualifying college student in your family. The Lifetime Learning Credit allows you to claim qualified expenses up to a maximum of $2,000 per tax return.[14] Keep in mind that income restrictions kick in for these credits, so check with your tax professional to see if you qualify. Keep in mind that the IRS now requires taxpayers to submit a Form 1098-T to show the amount paid in qualified tuition and expenses to claim education credits.[15]

- **Don't Forget Medicare Taxes**
  Two new Medicare taxes went into effect in 2014. The first was a new 3.8% Medicare tax imposed on profits from the sale of investment property, including 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. [16] 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.[17] 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 taxes will affect your tax burden this year.

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. We also 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,

James Allan

Would someone you know benefit from receiving this communication? If so, call our office at 920-735-9800 to provide us with their contact information and we will be happy to send them a copy.

Footnotes, disclosures and sources:

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[1] "TAX PROVISIONS IN THE AMERICAN TAXPAYER RELIEF ACT OF 2012 (ATRA)." Urban-Brookings Tax Policy Center. http://www.urban.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf [Accessed 27-October-2015]

[2] "In 2016, Some Tax Benefits Increase Slightly Due to Inflation Adjustments, Others Are Unchanged." IRS. https://www.irs.gov/uac/Newsroom/In-2016-Some-Tax-Benefits-Increase-Slightly-Due-to-Inflation-Adjustments,-Others-Are-Unchanged [Accessed 27-October-2015]

[3] You can never contribute more than you earned in a year. If you have a Roth IRA, your income may affect how much you can contribute and may exclude you from contributing to a Roth IRA entirely. See a tax professional for more information.

"IRS Announces 2016 Pension Plan Limitations." IRS. https://www.irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations%3B-401(k)-Contribution-Limit-Remains-Unchanged-at-$18,000-for-2016 [Accessed 27-October-2015]

[4] "Required Minimum Distributions." IRS. http://www.irs.gov/retirement/article/0,,id=96989,00.html [Accessed 27-October-2015]

[5] "IRS Announces 2016 Pension Plan Limitations." IRS. https://www.irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations%3B-401(k)-Contribution-Limit-Remains-Unchanged-at-$18,000-for-2016 [Accessed 27-October-2015]

[6] "Tax-Loss Harvesting: A Tactical Strategy to Add Incremental Value." MorningStar. http://news.morningstar.com/articlenet/article.aspx?id=439379 [Accessed 27-October-2015]

[7] "Rev. Proc. 2015-53." IRS https://www.irs.gov/pub/irs-drop/rp-15-53.pdf [Accessed 27-October-2015]

[8] "Early year-end mortgage payment could cut taxes." Bankrate.com. http://www.bankrate.com/finance/taxes/cut-taxes-with-early-mortgage-payment-1.aspx [Accessed 27-October-2015]

[9] "Charitable Contribution Deductions." IRS. http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contribution-Deductions [Accessed 27-October-2015]

[10] "Six IRS Tips for Year-End Gifts to Charity." IRS. https://www.irs.gov/uac/Six-IRS-Tips-for-Year-End-Gifts-to-Charity [Accessed 27-October-2015]

[11] ""In 2016, Some Tax Benefits Increase Slightly Due to Inflation Adjustments, Others Are Unchanged." IRS. https://www.irs.gov/uac/Newsroom/In-2016-Some-Tax-Benefits-Increase-Slightly-Due-to-Inflation-Adjustments,-Others-Are-Unchanged [Accessed 27-October-2015]

[12] "In 2016, Some Tax Benefits Increase Slightly Due to Inflation Adjustments, Others Are Unchanged." IRS. https://www.irs.gov/uac/Newsroom/In-2016-Some-Tax-Benefits-Increase-Slightly-Due-to-Inflation-Adjustments,-Others-Are-Unchanged [Accessed 27-October-2015]

[13] "American Opportunity Tax Credit." IRS. https://www.irs.gov/uac/American-Opportunity-Tax-Credit:-Questions-and-Answers [Accessed 27-October-2015]

[14] "Lifetime Learning Credit." IRS. https://www.irs.gov/Individuals/LLC [Accessed 27-October-2015]

[15] "Hot Topics for Refundable Credits." IRS. https://www.eitc.irs.gov/Other-Refundable-Credits/hot [Accessed 27-October-2015]

[16] "Questions and Answers on the Net Investment Income Tax." IRS. http://www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs [Accessed 27-October-2015]

[17] "Questions and Answers for the Additional Medicare Tax." IRS. https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax [Accessed 27-October-2015]