THE WHITE PAPER

Timely Insights for Your Financial Future

December 2014

Tori Patrick
President
Progressive Strategies Financial Group
27201 Puerta Real Suite 300
Mission Viejo, CA 92691
949.204.3800 702.893.1500
Fax: 702.549.1900
Tori@psfgwealth.com
www.psfgwealth.com
CA Insurance Lic#

Year-End Tax Planning Strategies

Although tax day is still months away, it is not too early to think about ways to curb your 2014 tax bill. Here are some year-end pointers for minimizing or delaying taxes.

A Question of Timing

The most basic form of year-end tax planning involves deferring income and accelerating deductions, keeping in mind the tax consequences for the current as well as the subsequent year. For instance, depending on your circumstances, you may be able to delay receiving commission or bonus compensation until after December 31. However, be sure to consult with a tax advisor prior to using this planning technique to ensure you are not running afoul of the IRS's "constructive receipt" rule, which treats income as taxable when it is earned as opposed to when it is received. You also may wish to explore opportunities to accelerate deductions for charitable contributions, state and local taxes, deductible interest payments, alimony, or other payments for which you can control the timing.

Timing can also play a key role when assessing the tax implications of your investments. For example, if you have stocks that have performed well this year, consider holding on to them at least until January 2015. Doing so will allow you to delay paying taxes on your gains for another year.

Other Investment-Related Tax Strategies

In addition to timing, there are some fairly straightforward steps you can take to potentially reduce the long-term impact of taxes on your portfolio.

Offset gains with losses -- When you sell securities, the tax on any profits will vary according to the length of time you have held the investment. Securities sold within a year of their purchase can generate short-term capital gains, which are taxed at the investor's ordinary income tax rate -- up to a maximum rate of 39.6% for the highest earning individuals.

Gains from the sale of securities held for more than one year are considered long-term gains and are taxed at a maximum rate of 15% for most Americans, but that rises to 20% for those with taxable incomes of over $400,000 ($450,000 for joint filers). In addition, a new Medicare surtax on net investment income, which includes capital gains, results in an overall top long-term capital gains tax rate of 23.8% for high-income taxpayers.

What is the best way to make these tax rules work in your favor? If you have experienced gains in your portfolio this year, congratulations, but consider selling assets that will generate a capital loss in order to balance out that gain. The IRS allows you to offset capital gains with capital losses to the extent of your total gains -- and above that, taxpayers are allowed to deduct up to $3,000 against ordinary income each year. Losses in excess of that limit can be carried over to the next year.

Make the most of tax-deferred investments -- Investments in tax-deferred accounts such as a traditional IRA offer a two-way tax advantage: You can contribute a total of $5,500 -- $6,500 if you are 50 or older -- in earned income to an IRA in 2014, and you will owe no tax on your investment earnings and principal until you withdraw the money, usually in retirement.[1] You may also be able to deduct all or part of your IRA contribution if you meet certain IRS guidelines for income and other eligibility criteria.

Year-end is also a good time to reevaluate employer-sponsored benefits, such as qualified retirement plans that offer tax deferral and typically allow participants to make contributions on a pretax basis, thereby lowering current taxable income. In 2014, the IRS allows individuals to set aside $17,500 ($23,000 for contributors age 50 and older) in an employer-sponsored plan.

An important year-end consideration for those holding IRAs or employer-sponsored retirement accounts is whether or not they have taken required minimum distributions. Account holders aged 70½ or older are required to withdraw specified amounts from these accounts each year. If you have not taken the required distributions in a given year, tax laws will impose a 50% tax on the shortfall, so it's important to take the required annual distribution by the end of the year.

Consider tax-exempt investments -- Municipal bonds have long been appreciated by investors seeking tax-free income. Interest earned on municipal bonds is typically exempt from federal taxes and may be exempt from state and local taxes.[2] Although "munis" generally pay lower yields than taxable bonds, their tax-exempt status gives them the potential to deliver higher returns than taxable bonds on an after-tax basis.

Income Shifting Through Gift Giving

Year-end is also the right time to make monetary gifts to children, grandchildren, and others. The annual gift tax exclusion for 2014 is $14,000 per individual or $28,000 for spouses combined. This strategy works particularly well for those who want to give away significant assets in a relatively short amount of time. For instance, assuming you and your spouse have two children (who are both married) and four grandchildren, you could give away $224,000 a year -- $14,000 from each of you to each family member -- without affecting your lifetime gift tax or estate tax exemption. Over time, these annual gifts will help to shift considerable assets out of your taxable estate as well as any future taxable income associated with the gifted money.

On the Horizon for 2015

President Obama's 2015 fiscal year budget contains a few provisions that -- if they materialize into law -- could have an effect on your best-laid tax and retirement planning endeavors. The most significant of these are:

1. A proposal to cap itemized deductions at a 28% tax rate for top earners
2. A cap on the aggregate value of qualified plan accounts
3. Required minimum distributions from Roth IRAs
4. An elimination of certain Social Security benefit-claiming strategies

While you can't foresee -- or control -- the outcome of these or any other proposed policy changes, there are many tangible steps that you can take to help keep your taxes in check. Work with your financial and tax advisor(s) to make tax planning an integral part of your overall financial plan.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

[1]*Withdrawals from traditional IRAs are taxed at then-current income tax rates. Withdrawals prior to age 59½ may be subject to an early withdrawal penalty.*

[2]*Capital gains on municipal bond investments are taxable as short- or long-term capital gains, depending on how long you have held the investment. Income from certain municipal bonds, known as private-activity bonds, must be reported as taxable income if you are subject to the alternative minimum tax.*

1-320062