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TAX PLANNING 2015

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.

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 used 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 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]

FEDERAL INCOME TAX BRACKETS 2014-2015

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

Source: IRS.gov

Actions That Could Be Taken

Get Organized

Nowisanexcellenttimeofyeartogetyourfinancialhouseinorder.Gathercashreceiptstohelpyoucalculatepossibledeductionsandmiscellaneouspayments.Doyouhaveahobbyoractivitythatgeneratesincome?Ifso,anylossesmightalsobeeligiblefordeduction.Haveyoumadehomeimprovements?Charitablecontributions?Getallofyourdocumentationtogetherearlytomakeyourlifealittleeasierin Aprilandconsultataxprofessionaltodiscussyourpersonalsituation.

Contribute the Maximum to Your Retirement Plan

YouhaveuntilApril15,2015tomakeIRAcontributionsfor2014,butthesooneryougetyourmoneyintotheaccount,thesoonerithasthepotentialtostartgrowingtax-deferred.Makingdeductiblecontributionsalsoreducesyourtaxableincomefortheyear.In2014and2015,youcancontributeamaximumof$5,500toanIRA,plusanextra$1,000ifyouare50orolder.ThislimitcanbesplitbetweenatraditionalIRAandaRothIRAifyoudesire,but the combined limit is still $5,500 or $6,500, respectively.[3]

Check Your IRA Distributions

YouarerequiredtomakeminimumdistributionsfromyourtraditionalIRAbyApril1stfollowingtheyearinwhichyoureachage70½.So,ifyouturned70inAugust2014,you'llturn70½inMarch2015,andwillneedtostarttakingRMDsApril1,2016.Failingtotakeoutenoughtriggersa50%excisetaxontheamountyoushouldhavewithdrawnbasedonyourage,lifeexpectancy,and the amount in the account at the beginning of the year.[4]

Fatten Your Employer-Sponsored Retirement Plan

Tax-deferredinvestingisasmartchoicebecauseitallowsyourmoneytogrowtax-freeuntilyouwithdrawit.Maximizeyour401(k),403(b),457,andTSPcontributions,whichare$17,500or$23,000ifyouwillbeage50orolderin2014,andwillincreaseto$18,000and$24,000,respectively,in2015.[5,6]

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

If 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

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]

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]

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]

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

Go Green

Buyersofplug-inhybridsandelectriccarsbenefitfromataxcreditof$2,500to$7,500,dependingonthesize ofthebatteryinthecar.Thecreditsapplytoplug-inhybridspurchasedafterDecember31,2009,thoughcertain modelsmayhavebeenphasedoutbasedonsalesquotas.[10]Inaddition,somealternativeenergyimprovementsto yourhomemayqualifyfortaxcreditsin2014and2015.[11]Checkwithataxprofessionaltofindoutwhichcredits apply to your circumstances.

Be Charitable

Agifttoaqualifiedcharitableorganizationmayentitleyoutoacharitablecontributiondeductionagainstyour incometaxifyouitemizedeductions.Ifthegiftsaredeductible,yourtaxsavingsreducestheactualcostofthe donation.Forexample,ifyouareinthe33%taxbracket,theeffectivecostofa$100donationisonly$67.Asyour incometaxbracketincreases,therealcostofyourcharitablegiftdecreases,makingcontributionsmoreattractive forthoseinhigherbrackets.Forapersoninthehighesttaxbracket,39.6%,theactualcostisonlyabout$60. Notonlycanthewealthyaffordtogivemore,buttheyalsoreceivealargerrewardforgiving.Typically,charitable donations are capped at 50% of your AGI, though limits of 20% or 30% may apply in some cases.[12]

Give a Gift

Thistimeofyear,manypeoplechoosetodonateitemstocharityinsteadofmakingamonetarycontribution. Notonlycandonationssaveyoumoneyandpreventperfectlygooditemsfromgettingwasted,buttheycanbe deducted from your taxes as long as you get written documentation of the donation.

Youcanalsopassmoneytolovedonestax-freeeachyear.Youcangiveuptotheannualexclusionamount ($14,000in2014and2015)toanynumberofpeopleeveryyear,withoutfacinganygifttaxes.Recipientsnever oweincometaxonthegifts.[13]Inadditiontotheannualgiftamount,theIRSallowsyoutogiveupto$5.34 million(asof2014)duringyourlifetimeoraspartofyourestatewithoutpayingtaxes.In2015,theestateand gifttaxexemptionwillriseto$5.43million.[14]Thislimitisindexedtoinflationandwillcontinuetoriseeachyear, increasing the amount that you can gift without owing taxes on it.

Fund an Education

TheIRSofferstaxpayersseveralcreditsanddeductionstohelpoffsetthecostofeducation.TheAmerican Opportunitytaxcreditwasextendedthrough2017andallowsyoutoclaimqualifiedexpensesupto$2,500for 2015.[15]Becauseataxcreditreducesyourtaxbilldollar-for-dollar,thisbasicallymeansthegovernmentwillgive youupto$2,500peryearforeachqualifyingcollegestudentinyourfamily.TheHopeScholarshipCreditwill allowyoutoclaimqualifiedexpensesuptoamaximumof$2,500.Youcandeductinterestpaymentsonstudent loansin2015,alsouptoamaximumof$2,500.Keepinmindthatincomerestrictionskickinforthesecredits, so check with your tax professional to see if you qualify.[16]

Don't Forget the New Medicare Taxes

Beginningin2014,twonewMedicaretaxeswentintoeffect.Thefirstwasanew3.8%Medicaretaximposedon profitsfromthesaleofinvestmentproperty.Thisincludescapitalgains,dividends,interestpaymentsandnetrental income,thoughdistributionsfromqualifiedretirementplansareexempt.Thetaxappliestowealthyindividuals

earningagrossincomeof$200,000ormoreandjointfilerswithacombinedgrossincomeof$250,000.The secondtaxwasa0.9%taxappliedtowagesandcompensationinexcessof$200,000forsingletaxpayers,and $250,000forjointfilers.Thesebracketsarenotindexedforinflation,sotheywillaffectmoretaxpayerseachyear. Ifyou'reintheaffectedincomebrackets,speakwithyourinvestmentrepresentativeandaccountingprofessional to discuss how the new taxes will affect your tax burden this year.[17]

CONCLUSION AND STEPS TO TAKE

Wehopeyouhavefoundthisreporttobeinformativeandthatyouwillfindsomeofthesestrategiesusefulasyou gothroughyourtaxplanningprocessthisyear.Oneofthewayswehelpourclientsisbyworkinghardtoprovide tax-smartinvestmentstrategiestominimizetheimpactUncleSamcanhaveonyourbottomline.Inaddition,we consideritourresponsibilitytoeducateyouaboutthingsthatcouldaffectyourfinancialfuture.Ifyouhaveany questionsaboutyourtaxesorhowtax-efficientplanningcanhelpreduceyourtaxburden,pleasegiveuscall. Wealsorecommendthatyouspeakwithaqualifiedtaxprofessionalwhocanadviseyouonthespecificsofyour personal tax situation.

Chris Bennett, CEO and Michael Abbott, CFO Abbott Bennett

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Investinginvolvesriskincludingthepotentiallossofprincipal.Noinvestmentstrategycanguaranteeaprofitor protect against loss in periods of declining values.

Past performance does not guarantee future results.

Consult your financial professional before making any investment decision.

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By accessing these links, you will leave our server, as they are located on another server. We have not independently verified the information available through the links provided below. The link is provided to you as a matter of interest.

[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 30-October-2014]

[2] "In 2014, Various Tax Benefits Increase Due to Inflation Adjustments." IRS. http://www.irs.gov/uac/Newsroom/In-2014,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments [Accessed 30-October-2014]

[3] "IRA Contribution Limits." IRS. http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-IRA-Contribution-Limits [Accessed 30-October-2014]

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[5] "IRS Announces 2014 Pension Plan Limitations." IRS. http://www.irs.gov/uac/IRS-Announces-2014-Pension-Plan-Limitations;-Taxpayers-May-Contribute-up-to-$17,500-to-their-401(k)-plans-in-2014 [Accessed 30-October-2014]

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[7] "Tax-Loss Harvesting: A Tactical Strategy to Add Incremental Value." MorningStar. http://news.morningstar.com/articlenet/article.aspx?id=439379 [Accessed 30-October-2014]

[8] "Modification of "Use-or-Lose" Rule For Health Flexible Spending Arrangements (FSAs)." IRS. http://www.irs.gov/pub/irs-drop/n-13-71.pdf [Accessed 30-October-2014]

[9] "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 30-October-2014]

[10] "Plug-In Electric Drive Vehicle Credit (IRC 30D." IRS. http://www.irs.gov/Businesses/Plug-In-Electric-Vehicle-Credit-(IRC-30-and-IRC-30D)

[11] "Energy-Efficient Home Improvements Can Lower Your Taxes" IRS. http://www.irs.gov/uac/Newsroom/Energy-Efficient-Home-Improvements-Can-Lower-Your-Taxes [Accessed 30-October-2014]

[12] "Charitable Contribution Deductions." IRS. http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contribution-Deductions [Accessed 30-October-2014]

[13] "In 2014, Various Tax Benefits Increase Due to Inflation Adjustments." IRS. http://www.irs.gov/uac/Newsroom/In-2014,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments [Accessed 30-October-2014]

[14] "In 2015, Various Tax Benefits Increase Due to Inflation Adjustments." IRS. http://www.irs.gov/uac/Newsroom/In-2015,-Various-Tax-Benefits-Increase-Due-to-Inflation-Adjustments [Accessed 30-October-2014]

[15] "American Opportunity Tax Credit." IRS. http://www.irs.gov/uac/American-Opportunity-Tax-Credit [Accessed 30-October-2014]

[16] "IRS Announces 2015 Tax Brackets, Standard Deduction Amounts And More." Forbes. http://www.forbes.com/sites/kellyphillipserb/2014/10/30/irs-announces-2015-tax-brackets-standard-deduction-amounts-and-more/ [Accessed 30-October-2014]

[17] "Questions and Answers on the Net Investment Income Tax." IRS. http://www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs [Accessed 30-October-2014]

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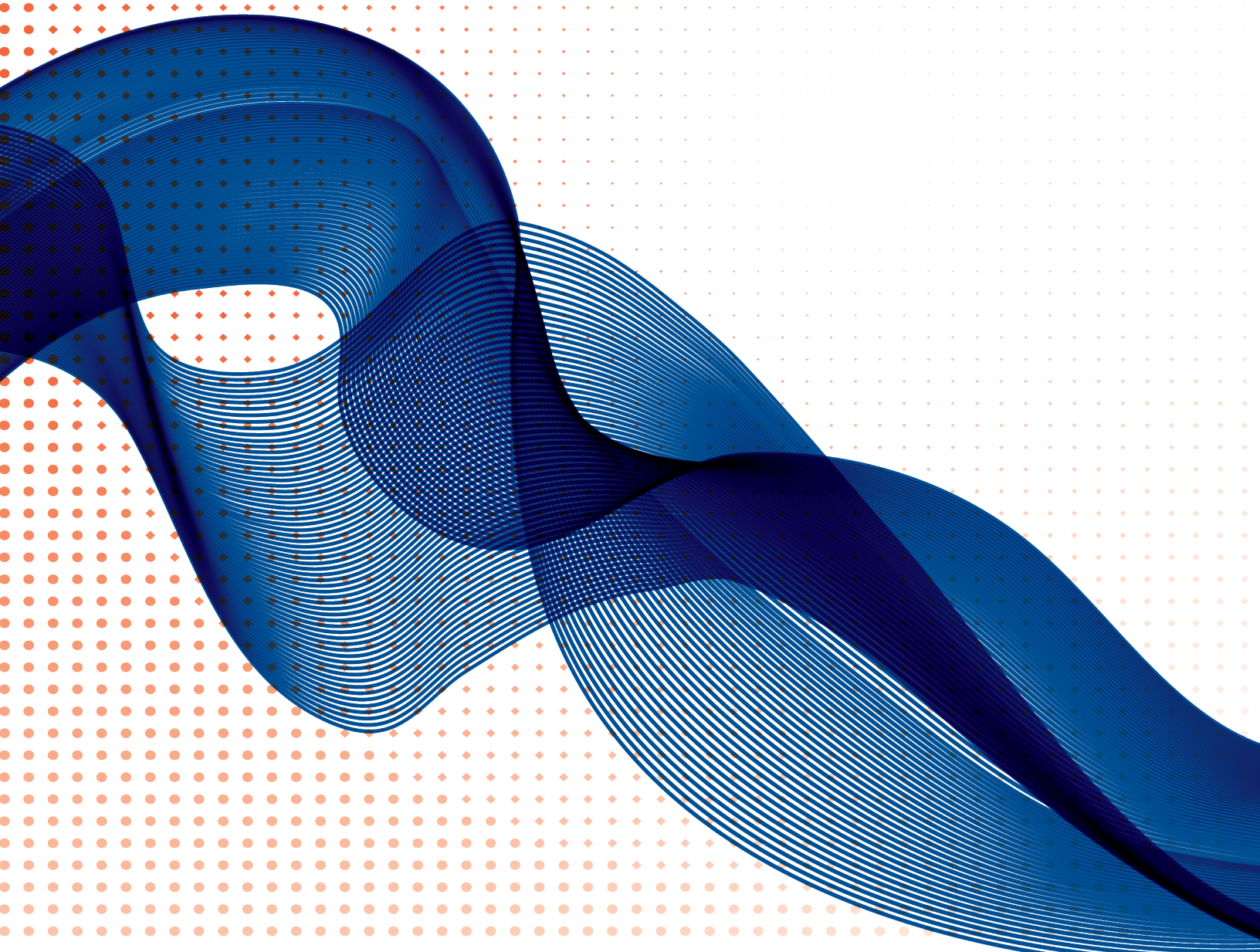
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