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2015 YEAR-END TAX PLANNING TIPS

Year-end Planning for Income Taxes is Critical!
More Than 50 Popular Tax Benefits Expired at the End of 2014

2015 is coming to a close; however you still have time to avoid big surprises at tax-time next year. We suggest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

2015 has been another light year of tax legislation, but what passed significantly affected business and personal taxes. Additionally, more than 50 popular tax provisions expired at the end of 2014 and Congress has failed to extend. We await Congressional action to extend.

For Individuals: These include, among others: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line deduction for qualified higher education expenses; the ability to deduct up to $2 million of mortgage debt forgiveness; and tax-free distributions by those age 70 1/2 or older from IRAs for charitable purposes.

For Businesses: expired tax breaks include: 50% bonus first-year depreciation for most new machinery, equipment, and software; an increase to $500,000 expensing limitation; the research tax credit; and the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings, and improvements and qualified retail improvements.

In mid-December 2015, the same Congress returns to take action on the tax extender legislation. Eventually many tax breaks will be retroactively reinstated and extended. Which benefits will get the okay, let alone when an extender bill will pass, is anyone’s guess. Should Congress deadlock again and the extender bill doesn’t pass until 2016, the IRS says that the 2015 tax return filings and tax refunds will both be delayed.

The IRS Has Been Quite Active on the Regulatory Front. During 2015, the IRS issued a number of major regulations, rulings and other guidance that impact your tax picture. We stay abreast of these rules in order to assist you with tax planning and tax preparation.

Monday April 18, 2016 will be the 2016 Tax Deadline for Most Individual Taxpayers. April 15, 2016 will be on a Friday, however the Emancipation Day holiday in the District of Columbia will be observed on that day, thus the IRS announced that most taxpayers will have until the next business day to file their tax returns, thus Monday, April 18, 2016.

Important Items for 2015

- **Standard Mileage Rates for 2015**: The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in **2015** is **57.5¢** per mile. The **2015** rate for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction is **23¢** per mile. The rate for using a car for **2015** charitable purposes remains at **14¢** per mile. The **2016** standard mileage rates are expected to be announced by the IRS in early December.

- **Reporting Changes in Circumstances:** If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2015. It is important that you report *changes in circumstances* to your Marketplace so you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will help you avoid getting too much or too little premium assistance in advance.

- **Individuals and Dependents Must Have Health Insurance:** Beginning in 2014, the 2010 health care reform law (sometimes called the ACA) required individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty. Some taxpayers will qualify for an exception from this "individual mandate"; others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan; still others have coverage through a government program such as Medicare or Medicaid. For lower-income individuals who obtain health insurance at the Healthcare Marketplace, a premium tax credit and cost-sharing reductions may be available to help offset the costs.

- **Depreciation Expensing:** Unless Congress changes the rules, for tax years beginning in 2015, the dollar limit for expensing fixed asset purchases will drop to $25,000, the beginning-of-phase-out amount will drop to $200,000, and expensing won't be available for qualified real property. The generous dollar ceilings that were available in 2014 are not available. The 50% bonus first-year depreciation generally won't be available unless Congress acts to extend it.

- **The 3.8% Medicare Investment Income Tax**: Higher earning taxpayers need to plan for the 3.8% Medicare tax on net investment income. This tax beginning in 2013 was created as part of the Health Care Act. It comes into play when your modified adjusted gross income is over $250,000 for joint filers or surviving spouses, $125,000 for married individuals filing a separate return, and $200,000 in any other case. By deferring net investment income or reducing modified adjusted gross income or both, this tax might be minimized or avoided altogether. If you are planning a sale of an asset not used in a trade or business you need to be mindful of this tax.

- **The 0.9% Medicare Tax:** The Health Care Act also added another tax beginning in 2013. The additional 0.9% Medicare (hospital insurance) tax that applies to individuals receiving employment wages in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately).

  This tax will be withheld by your employer in many cases, but there will be situations where you may need to have more withheld toward year-end to cover the tax. For instance, if you earned $150,000 from each of two employers during the year, you would owe the additional Medicare tax, but there would be no withholding by either employer for the additional tax.

  The new Medicare tax can also be over-withheld, usually when only one of the married couple works and the extra tax is withheld, but the couple's income won't be high enough to actually cause the extra tax to be owed.

- **Underwater on Your Home?** If you are currently underwater on your home (you owe more than your home is worth) and you are considering selling or getting a loan modification, you might want to wait a little longer. Qualified mortgage debt relief from your lender discharged in 2015 will be considered income. If Congress extends a previous tax benefit and makes it retroactive, any debt discharged on or after January 1, 2015, will not be considered income and taxes will not be owed on the amount forgiven.

2015 Year-End Tax Tips

Not all these tips based on current tax rules will apply in your particular situation but you or a family member are likely to benefit from many of them. The sooner you call us for an appointment, the more time we will have to meet, find specific actions that will benefit you and your family and get you started on your year-end tax saving moves.

Year-End Tax Planning Moves for Businesses & Business Owners

Here are a few key tax-saving moves your business might make:

- ☐ **New IRS Rules about When to Capitalize and When to Repair:** Effective for taxable years beginning on or after January 1, 2014, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property, plus the deductibility of materials and supplies. A deduction for materials and supplies is allowed under a de minimis rule that includes property that has an acquisition or production cost of $200 or less. The regulations allow most taxpayers to expense all items costing $500 or less under the new de minimis rules. Beginning in 2016 this has been increased to $2,500.

- ☐ **Consider Selling Rather Than Trading Your Business Automobile:** Before trading in your business automobile when purchasing a new vehicle, call our office to discuss whether an outright sale might be more advantageous. Because of depreciation restrictions on automobiles, a sale might result in a deductible tax loss. Call to discuss whether a trade or sale would be most advantageous.

- ☐ **Credit for Small Employers' Employee Health Insurance Expenses:** Eligible small employers are allowed a credit for 50 percent of certain contributions made to purchase health insurance for their employees. Eligible employers are generally those with 10 or fewer FTEs with wages of $25,000 or less that offer a qualified health plan (QHP) purchased through the Small Business Health Options Program (SHOP) exchange. The credit amount begins to phase out for employers with either 11 FTEs or average annual employee wages of more than $25,000. The credit is phased out completely for employers with 25 or more FTEs or average annual employee wages of $50,000 or more.

- ☐ **Ownership Transition:** If you plan to exit or transition your business to new ownership, it will pay to do some tax planning well in advance. Not only can tax planning be financially rewarding, but a well thought out tax plan can give you peace of mind. We can help you create a comprehensive, integrated strategy that addresses business financial planning, personal financial planning, management succession, an estate plan and a plan for ownership transition. Advance planning can help you sell your business for a larger sales price and keep more of the proceeds after tax.

- ☐ **S Corporation Election:** Consider incorporating and electing S Corporation status or, if your business is already incorporated, consider switching from C to S corporation status. Doing so will avoid federal and state double taxation on business income and recognized gains at the time of a future sale or liquidation. (C corporations pay corporate tax on their taxable income and then any dividend paid to shareholders is taxed again at the shareholder level.)

  Once your business converts from C to S status, a 10-year period must pass before a future sale or liquidation can completely escape double taxation. Pending approval by Congress the 10-year holding period may again be shortened to 5 years as part of extender legislation. Until then, if you sell an asset owned when S Corporation status was elected, there will be tax on the gain existing at the time the S election was made; all appreciation after that date will avoid double taxation.

Year-End Tax Planning Moves for Individuals

Here are a few key tax-saving moves that might save you some money:

- ☐ **Employer's Health Flexible Spending Account:** If you put too little into your employer's health flexible spending account (FSA) this year, increase the amount you set aside for next year. If your employer takes advantage of an FSA option, you may be able to carryover $500 into the following year. If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2015. If you are not a participant in your employer's flexible spending account, consider electing to participate during the next enrollment period. These plans use pre-tax dollars to pay your medical expenses. Often described as "free money".

- ☐ **Estimated Income Tax:** If you receive income that's not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. Check with us and we can help you figure out how much estimated tax you may need to pay. The final estimated tax payment for 2015 is due on January 15, 2016.

- ☐ **Energy Credits:** Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs. If you have made improvements to your home or plan to by the end of 2015, please contact us to discuss the amount of the credit you might qualify for.

- ☐ **Convert to a Roth IRA:** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2015.

- ☐ **Defer Income to 2016:** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. In some cases, it may pay to actually accelerate income into 2015. That may be the case where a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2016 will result in a higher tax credit for an individual who purchases health insurance and is eligible for a premium assistance credit. Keep in mind that delaying 2015 income into 2016 might push you into a higher tax bracket next year or have a detrimental impact on various income tax deductions that are reduced at higher income levels.

- ☐ **Substantiating Charitable Contributions:** When making contributions of cash, check, or other monetary gift, regardless of amount, you must maintain a bank record or a written communication from the charity. If the contribution is $250 or more you must maintain a contemporaneous written receipt from the charitable organization.

- ☐ **Balance Stock Gains and Losses:** If you have taken losses on stock sales in 2015 and you have investments that have appreciated in value, you should consider selling if you believe the values have peaked, and thereby offset gains with your pre-existing losses. It might be advisable for us to meet to discuss year-end trades you should consider making.

- ☐ **Accelerate deductions into 2015 to lower your 2015 tax bill:** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2015 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Consider using a credit card to pay deductible expenses to increase your 2015 deductions even if you don't pay the credit card bill until after year end.

- ☐ **<u>Pay First Quarter Education Expenses Early:</u>** Unless Congress extends it, the up-to-$4,000 above-the-line deduction for qualified higher education expenses will not be available for 2015. If extended, consider prepaying 2016's first quarter eligible expenses.

- ☐ **<u>Consider Reversing your 2015 IRA to Roth IRA Conversion:</u>** If you converted assets in a traditional IRA to a Roth IRA earlier in 2015, the assets in the Roth IRA account may have declined in value. That means if you leave things as-is, you will wind up paying a higher tax than is necessary. You can still back out of the conversion by recharacterizing the rollover by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

- ☐ **<u>Sell Passive Activities With Suspended Losses:</u>** If you own an interest in a passive activity with suspended passive losses, sale of the activity before year end will produce deductible losses that will reduce your taxable income.

- ☐ **<u>Don't Forget Your Required Minimum Distributions:</u>** Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

- ☐ **<u>Make Annual Gifts to Individuals:</u>** Consider making gifts to family. The annual gift tax exclusion for 2015 is $14,000. You can make gifts of this size or less to an unlimited number of individuals. Consider strategies like helping children and grandchildren fund ROTH IRA's as a way to transfer wealth. In addition, paying qualified higher education expenses (tuition) directly for someone is not subject to the annual gift exclusion.

- ☐ **<u>Update Your Will or Trust:</u>** If you haven't updated your estate planning in recent years now is the time. Please consider including us in your discussions with your attorney. If you need referrals for an attorney please contact us.

- ☐ **<u>Employer Retirement Plan:</u>** At your employer's next benefits enrollment period, consider enrolling in your available retirement plan that allows employee deferrals. If you're already a participant, consider increasing your retirement deferrals.

NOW IS THE TIME TO PLAN FOR YOUR 2015 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2016 is likely to mean missing tax saving opportunities that are only available until the end of 2015.

In 2015 did you have a significant income change? Change your name or address? Marry, divorce, or live apart from your spouse? Have or adopt a child? Lose a spouse or a child? Start or sell a business? Purchase or sell business equipment or rental property? Create a living trust;? Receive any correspondence from the IRS? We need to know!

<u>Call today for a tax planning appointment</u>. The sooner we meet, the more time we will have for tax saving action.

Thank You!

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Planned Financial Services and LPL do not provide tax & legal advice, or services. This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

Traditional IRA account owners should consider the tax ramifications, age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation.