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2015 Year-end Tax Letter

It has been a fairly quiet year on the tax legislation front.

Due to inaction by Congress, a number of provisions expired at the end of 2014, and are, as of this writing, unavailable for 2015. This would include:

- The $100,000 qualified distribution to charities from individual retirement accounts.
- The deduction for state and local general sales taxes in lieu of a deduction for state and local income taxes (applicable primarily to taxpayers in states WITHOUT an income tax.)
- The $250 out-of-pocket deduction for teachers.
- The deductibility of mortgage insurance premiums as qualified mortgage interest.
- The deduction for qualified tuition and related expenses (although the generally more beneficial American Opportunity Tax Credit is still available.)

It is possible that Congress will pass last minute legislation in December to resurrect some or all of these items, or even pass legislation in 2016 which is retroactive to 2015.

What things should you be considering prior to year-end?

- If you normally pay your real estate taxes at the end of the year, be sure to do so by December 31st for a deduction on your 2015 return. Keep in mind that if you are subject to the Alternative Minimum Tax, you will likely not get any Federal tax benefit from this payment, but you will get a credit on your Wisconsin income tax return, if you are a Wisconsin resident.
- If you are making estimated payments and wish to deduct your fourth quarter 2015 state estimated payment, that payment must be made by December 31st. Again, if you are subject to Alternative Minimum Tax, you will likely not get any tax benefit from this payment, and could make it as late as January 15, 2016.
- Charitable contributions to be deducted in 2015 must be made by December 31st.
- If you are considering doing a conversion of IRA assets to a Roth IRA, keep in mind that this must be done by December 31st in order to have the income be reported on your 2015 return. This is different from IRA contributions, which can be made as late as April 15th.

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- If you have securities (stocks or mutual funds) in a taxable (not retirement) account which have losses, you may wish to sell those securities to take the loss in 2015. Keep in mind the wash sale rules, which prohibit deducting the loss if you purchase the same or similar securities during a period of 30 days prior to the sale through 30 days after the sale.
- Contributions to the Wisconsin EdVest program can now be made up through April 15 (if specified as a 2015 contribution) and deducted on your 2015 return. The 2015 deduction limit is $3,100 per beneficiary. Contributions in excess of this amount will generally carryover to subsequent tax years.
- Ensure that you have taken any Required Minimum Distributions by December 31st. The penalty for not doing so is steep—50% of the amount you should have taken.
- Taxpayers in the 10 or 15% tax bracket should keep in mind that capital gains are taxed to them at a 0% rate for Federal purposes. These taxpayers may wish to sell some gain securities in order to eliminate the gain at no Federal tax cost. These proceeds can be reinvested in the same security immediately, as there is no "wash sale gain" rule. That only applies to losses.
- Taxpayers with "use it or lose it" flexible spending accounts should zero out those accounts by year-end, or the plan distribution deadline, to avoid losing those funds. This does NOT apply to Health Savings Accounts (H.S.A.s) which permit carryover of funds from year to year.
- Taxpayers with a larger than normal income year may wish to consider donating appreciated securities to either an individual charity or a Donor Advised Fund (such as Fidelity Charitable, Schwab Charitable or Vanguard Charitable.) This would create a tax deduction for the fair market value of the securities donated, and the capital gain essentially disappears. Keep in mind that this only makes sense for securities with a gain, not a loss.

As always, you should consider doing a tax projection prior to making large tax changes, such as Roth conversions or larger than normal charitable contributions. Clients who prepare their own taxes can often do a projection using their tax software, such as Turbo Tax. If I prepare your income tax returns, I have your prior year information in my system, which can make tax projections more efficient.

Not every client or taxpayer will need a tax projection. In general, those who will benefit from a tax projection are those who:

- Have had a large increase or decrease in income from the prior year,
- Those who have done or are contemplating Roth conversions, or other large transactions.

Those who generally will <u>not</u> benefit from a tax projection are those who:

- Have a fairly stable and predictable income from year to year,
- Those who know they may owe tax with their return, but are not likely to take any action to change that fact.

For those clients for whom I prepare tax returns, tax organizers should be mailed by January 15th. Please let me know if you do not receive yours by January 22nd.

Please let me know if you have any questions on anything mentioned in this letter, or if you wish to discuss having a tax projection prepared. Tax projections generally need to be scheduled by December 7th in order for me to obtain information from you, prepare the projection, and provide you with the results and recommendations.

Sincerely,

Eric
Eric S. Korbitz CPA, CFP®