BLUME KEENEY PLLC

Trusted Tax Advisors

2015 Year-End Tax Planning Guide

2015 YEAR-END TAX PLANNING GUIDE

The 2015 edition of the Blume Keeney Year-End Tax Planning Guide is very similar to the 2014 edition. "Why is that?" you may ask. Well, similar to last year, Congress continues to display its deeply divided partisanship by focusing more on politics and rhetoric than addressing meaningful tax legislation. Consequently, taxpayers and professionals are once again left in the difficult position of guessing if Congress will extend the numerous provisions that expired at the end of 2014.

We've learned over the last few years that Congress will, eventually, pass legislation to extend most of the expired tax provisions. It might happen in December just before year-end, or even in January after the year has ended, but it will occur…we think. Some specific provisions, like the sales tax deduction for individuals and the 50% bonus deprecation and increased limits for Section 179 deductions for businesses, have bipartisan support and are particularly attractive for Congress to extend. If and when tax legislation is passed, we will be sure to pass along the relevant information.

We do know that client situations change from year to year. So what should you do about year-end tax planning? This guide identifies a number of tried and true planning ideas that work regardless of the current tax laws, along with items to consider if there are last-minute changes. You can also always give Jenny or Ryan a call so that we can personally talk with you about your opportunities.

TAX PLANNING CHECKLIST FOR INDIVIDUALS

Income Planning

- ☐ Tax-exempt income – Review investment portfolios to consider exposure to municipal bonds. Not only is the interest tax-exempt, but it's also not subject to the 3.8% Net Investment Income Tax (NIIT) that might apply to other taxable income.
- ☐ 0% tax rate income – For taxpayers in the 10% or 15% income tax brackets, long-term capital gains and qualified dividend income is taxed at 0%. So if you are in one of these tax brackets, consider capital gain harvesting before year-end to increase basis within a portfolio. Note that wash sale rules that limit capital losses, do not apply to gains.
- ☐ Suspended passive losses – Review your passive loss carryovers if selling real estate or business interests. Losses from a passive activity that are not allowed to offset current income due to the passive loss rules are suspended and carried forward. Disposing of a passive activity with suspended losses allows the current year losses and suspended losses to offset income.
- ☐ Income deferral – When possible, recognize income after year-end. For example, defer bonuses or delay stock option exercises and asset sales.
- ☐ Passive income – Explore ways to increase the level of participation with passive entities or rental properties to avoid the additional NIIT. Income from passive activities may be subject to the NIIT 3.8% surtax in addition to income tax. However, this can be mitigated if taxpayers can meet one of the tests for material participation.
- ☐ IRA conversion strategy – Evaluate your IRA and anticipated income level for 2015 to determine if a portion of your IRA should be converted to a Roth IRA. This conversion will create additional taxable income in the current year, but the distributions from the converted account will be income tax-free in future years.

Single	Married Filing Jointly	Marginal Rate	Long-Term Capital Gain & Qualified Dividends Tax Rates
$0 to $9,225	$0 to $18,450	10%	**0%**
$9,226 to 37,450	$18,451 to $74,900	15%	**0%**
$37,451 to $90,750	$74,901 to $151,200	25%	15%
$90,751 to $189,300	$151,201 to $230,450	28%	15%
$189,301 to $411,500	$230,451 to 411,500	33%	15%
$411,501 to $413,200	$411,501 to 464,850	35%	15%
Over $413,201	Over $ 464,850	39.6%	20%

TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Income Planning (continued)

- ☐ Age 70.5 initial required minimum distribution – If you turn age 70.5 during 2015, you have until April 1, 2016 to take your initial required minimum distribution (RMD) from retirement plans. However, if you do wait until 2016, you will then have a double distribution in the same year potentially causing negative tax implications. To avoid that, consider taking your age 70.5 RMD prior to year-end.

- ☐ Installment sale – Consider deferring gain recognition with assets sold on installment until the tax year when proceeds are actually received.

- ☐ Like-kind exchange – Consider using a like-kind exchange on the sale of rental or business property to defer taxable gains.

- ☐ Long-term capital gains and qualified dividends – Review investment portfolios to take advantage of the preferential income tax rate for long-term capital gains and qualified dividends.

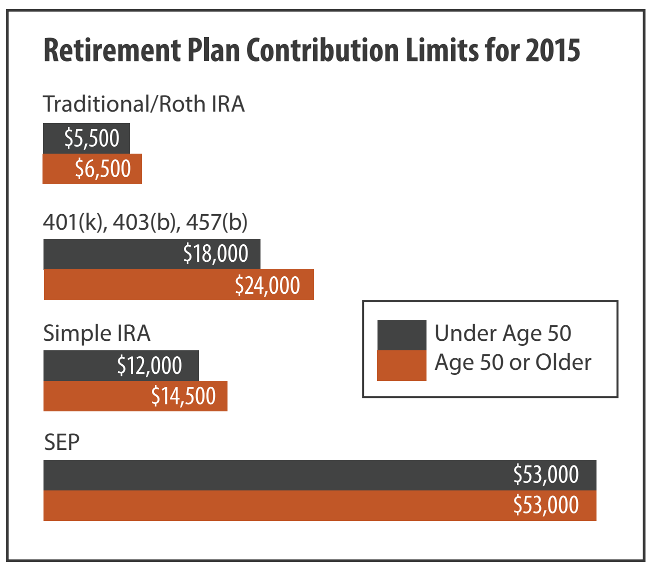
- ☐ Child's income – Transfer income producing assets to kids to utilize their (generally) lower tax bracket. However, the Kiddie Tax could eliminate a majority of the tax savings if the child is under age 18, or under age 24 and a full-time student.

Top Tax Rates for 2015	
Ordinary earned income	39.6%
Net investment income and passive income[1]	43.4% [2]
Long-term capital gains	23.8%[2]
Qualified dividends	23.8%[2]
Estate and gift tax	40%

(1) Includes interest, dividends, royalties, net rental income, and other passive income
(2) Includes 3.8% surtax on the lesser of a) net investment income or b) adjusted gross income over the applicable threshold of $200,000 for single taxpayers, $250,000 for joint taxpayers, or $12,300 for estates and trusts.

- ☐ Same-sex marriage – New guidance relating to same-sex marriage has changed tax return filing requirements for certain individuals and created opportunities to potentially reduce income taxes. Furthermore, these changes apply retroactively so it is important to consider prior year tax returns in light of these changes.

- ☐ Capital loss harvesting – Market volatility during the year may have created unrealized losses. Review your portfolio to ensure that capital losses have been taken (when appropriate) to mitigate capital gains. Capital losses can be used to offset capital gains, and unused losses are carried forward to offset future capital gains. However, the wash sale rules impact the benefit if the same asset is reacquired within a specified time period.



TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Deduction Planning

- [ ] Retirement plan contributions – Certain plans, such as 401(k) and Keogh plans, allow larger tax deductions than IRAs or SEP IRAs, but they must be established by year-end.
- [ ] Over age 50 retirement plan contributions – If over age 50, be sure to utilize the “catch-up contribution” that allows for an additional $6,000 contribution to a 401(k) and a $1,000 contribution to an IRA in addition to the regular contribution limits. (See chart on previous page)
- [ ] Health Savings Account (HSA) contributions – If eligible, contributions to an HSA are tax-deductible, and eligible distributions are tax-free.
- [ ] Deduction phase-outs – Consider bunching two years of deductions into one year by accelerating or deferring deductions, like medical expenses, mortgage interest, state income taxes, real estate taxes and charitable contributions to exceed the phase-outs and maximize the deduction benefit.
- [ ] Charitable miles – A deduction of $0.14 per mile is allowed when using a vehicle for charitable purposes, plus parking fees and tolls.
- [ ] Charitable contributions – Consider giving appreciated property to a charity instead of cash to receive a deduction for the fair market value and avoid paying tax on the capital gain. Conversely, depreciated investment assets should be sold first, and the cash donated to charity to receive the benefit of the capital loss.
- [ ] Timing of charitable contributions – Credit card charges and checks mailed on or before December 31, though not paid until 2016, are still considered deductions in 2015.
- [ ] Substantiation of charitable contributions – The IRS has recently begun disallowing charitable contribution deductions when taxpayers are unable to completely meet the substantiation requirements. When giving over $250 to charity, be sure to get an acknowledgement letter from the charity. It would even be advisable to take a photo of non-cash items contributed.
- [ ] Sales tax deduction and Qualified Charitable Deduction (QCD) – These popular deductions have expired and have not yet been extended into 2015.

<table>
<tr><th rowspan="2">VALUE</th><th colspan="3">CHARITABLE CONTRIBUTION REQUIREMENTS</th></tr>
<tr><th>Cash Donations</th><th>Non-Cash Donations</th><th>Publicly Traded Stock Donations</th></tr>
<tr><td>$249 or less</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td></tr>
<tr><td>$250 - $500</td><td rowspan="4">Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td></tr>
<tr><td>$501 - $5,000</td><td>In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td><td rowspan="3">In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td></tr>
<tr><td>More than $5,000</td><td>In addition to requirements above, must obtain an appraisal from a qualified appraiser</td></tr>
<tr><td>$500,000 or greater</td><td>Obtain an appraisal from a qualified appraiser for assets other than cash or publicly traded securities AND attach a copy of the appraisal to your return along with a confirmation letter from the charity</td></tr>
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TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Estate and Gift Planning

- [ ] Annual exclusion – Every taxpayer has a $14,000-per-recipient annual exclusion from gift tax. Combined with a spouse's annual exclusion, a married couple can give $28,000 per recipient.
- [ ] Lifetime exemption – The lifetime exemptions for gift and estate tax is $5.43 million (this is in addition to the $14,000-per-recipient annual exclusions for lifetime gifts referenced above). The gift and estate tax rate for transfers greater than $5.43 million is 40% for 2015.
- [ ] Gift considerations – Annual giving above the $14,000 annual exclusion amount can have a significant impact on long-term estate tax planning (especially for Washington state residents). Consider evaluating your gifting options before year-end.
- [ ] Charitable gifts – Taxpayers with significant charitable intent may be able to receive both an income tax benefit and an estate tax benefit with the proper planning.
- [ ] Interest Rates – Applicable federal rates (AFRs), minimum interest rates that are required to be charged by related parties, continue to be at historical lows. In some cases, it may be possible to refinance loans between related parties to reduce interest payments.
- [ ] Valuation Discounts – Discounts have been an extremely valuable tool in the estate planning arena for decades. However, recent statements from the IRS suggest that the Treasury is attempting to limit the application of these discounts. Taxpayers seeking to apply these discounts as part of their overall estate, gift, and succession plans should evaluate their options now before additional restrictions are imposed.
- [ ] Same-sex marriage – New guidance relating to same-sex marriage has created opportunities for certain individuals. Wills and other estate planning documents should be updated to incorporate these new opportunities.

Affordable Care Act – Health Insurance

- [ ] Required insurance – All US citizens and legal residents are required to have qualifying health insurance. There are some exemptions, primarily due to financial hardship or short-term gaps in coverage.
- [ ] Penalties – The penalty for not obtaining qualifying health coverage is the greater of $325 per person or 2% of household income in 2015, and $695 per person or 2.5% of household income in 2016. Maximum penalties do apply.
- [ ] Premium tax credits – Taxpayers with household income below four times the federal poverty limit ($46,680 for an individual, $95,400 for a family of four) may qualify for a premium tax credit or a premium subsidy.
- [ ] Reporting – A Form 1095-A will be issued to anyone enrolled in health insurance through the Health Insurance Marketplace. This form will be needed to complete the Form 1040. The return will include applicable penalties and applicable credits as part of the total tax due.
- [ ] Substantiating Health Coverage – Beginning in 2015, employers, insurers and other third parties will be required to provide individuals with either Form 1095-B or Form 1095-C reporting and substantiating their coverage for the calendar year.

TAX PLANNING CHECKLIST FOR TRUSTS

Tax Planning Checklists for Trusts

- ☐ Distributions – Trusts have a low threshold of $12,300 for the NIIT so most undistributed income in a trust will be subject to the additional tax. Trustees should consider maximizing distributions to beneficiaries, and consider strategies to distribute capital gains.
- ☐ Income sources – Similar to the tax planning for individuals, trustees should evaluate the role of tax-exempt income in the trust's investment portfolio given the 3.8% NIIT on taxable income.
- ☐ Passive activities – IRS guidance has clarified the application of NIIT on a trust's business and/or real estate income. In light of this new guidance, consider the role of a trustee in the management of the trust assets and whether additional steps can be taken to mitigate this additional tax.

Taxable Income	Marginal Tax Rate
Not over $2,500	15%
Over $2,501 but not over $5,900	25%
Over $5,901 but not over $9,050	28%
Over $9,051 but not over $12,300	33%
Over $12,300 *	39.6%

Additional 3.8% tax on investment and passive income in excess of $12,300

TAX PLANNING CHECKLIST FOR BUSINESSES

Tax Planning Checklists for Businesses

- [ ] Form W-2 - Employers are required to include the annual cost of health plan coverage provided to an employee. This is for information reporting purposes only and doesn't affect the employee's taxable income.
- [ ] ACA Reporting – For employers with 50 or more FTE employees, new Form 1095C and From 1094C is required to report minimum essential health insurance coverage for employees.
- [ ] Limitation on Health FSA Reimbursements - The maximum health FSA reimbursement may not exceed $2,550 per year. Employers have until December 31, 2015, to amend their health FSA plans to reflect the new limits.
- [ ] Buy-Sell Agreements – Buy-Sell Agreements can act as a will for businesses. Agreements should be reviewed and updated regularly. This is especially important in any business with multiple owners.
- [ ] Section 179 – The Section 179 depreciation deduction for qualifying assets acquired in 2015 is only $25,000. This depreciation deduction begins to phase out once total depreciable assets purchased during the year exceed $200,000. There is a good possibility that Congress will increase the deduction thresholds prior to year-end; however, this outcome is still uncertain.
- [ ] Bonus Depreciation – The 50% bonus depreciation expired in 2014 and has not yet been renewed by Congress. There is a possibility that this will be extended by Congress before year-end.

MACRS Depreciation Asset Classes

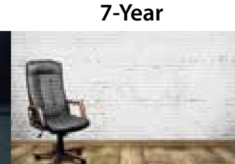
3-Year

Tractor units for over-the-road-use.

5-Year

Autos, computers, and equipment

7-Year



Office furniture and fixtures, farm machinery and equipment

10-Year

Vessels, barges, tugs

15-Year

Certain land improvements

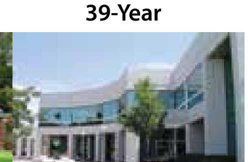
20-Year

Certain farm buildings

27.5-Year

Residential rental property - apartment buildings, single family

39-Year



Non-residential real property - office and commercial

TAX PLANNING CHECKLIST FOR BUSINESSES (continued)

Tax Planning Checklists for Businesses (continued)

- ☐ Family Employees – Consider hiring your school-age child to work for your business part-time. Reasonable compensation is deductible, reducing your self-employment income. No Social Security or Medicare tax is due on the child's earnings if they are under age 18 and the business is not a corporation. Also, the child could make a contribution to a traditional or Roth IRA.
- ☐ Form 1099 – Any non-corporate vendor paid over $600 must be issued the Form 1099 to report payments.
- ☐ Small Business Health Care Tax Credit for Small Employers – Small employers, generally those with fewer than 25 full-time equivalent employees with average wages of $50,000 or less, are allowed a maximum credit for 50 percent of premiums paid for employees health insurance. Insurance must be purchased through the Small Business Health Options Program (SHOP) or qualify for an exception to the requirement.
- ☐ Employer Healthcare Reimbursement Plans – Employer healthcare reimbursement plans fail the market reform requirements of the ACA and are subject to a $100 per day excise tax. Be sure to revise employer provided health insurance options to remove reimbursement plans.
- ☐ Employer-Provided Child Care Credit – Employers can claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services.
- ☐ Research and Development Credit – Companies that develop new or improved products or processes may be able to benefit from research tax credit incentives. The research tax credit law expired at the end of 2014 but has historically been extended.

Regardless of the fact that tax laws are not changing significantly this year, there continues to be opportunities to plan for future financial success. Decisions you make this year could have a direct impact on your long-term financial security, so it pays to plan and take action now to ensure your goals can be achieved.

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