It's Time for Year-End Tax Planning

Article Highlights:

- Capital Gains and Losses
- Roth IRA Conversions
- Recharacterizing a Roth Conversion
- Minimum Required Distribution
- Annual Gift Tax Exemption
- Expensing Allowance (Sec 179 Deduction)
- Self-employed Retirement Plans
- Increase Basis

For the past few years, year-end tax planning has been challenging due to the lateness of action by Congress. This year is no different because of uncertainty over whether Congress will extend any of the many expired or expiring tax provisions. However, regardless of what Congress does later this year, solid tax savings can still be realized by taking advantage of tax breaks that are still on the books for 2015. For individuals and small businesses, these include:

- **Capital Gains and Losses** – You can employ several strategies to suit your particular tax circumstances. If your income is low this year and your tax bracket is 15% or lower, you can take advantage of the zero percent capital gains bracket benefit, resulting in no tax for part or all of your long-term gains. Others, affected by the market downturn earlier this year, should review their portfolio with an eye to offsetting gains with losses and take advantage of the $3,000 ($1,500 for married taxpayers filing separately) allowable annual capital loss allowance. Any losses in excess of those amounts are carried forward to future years.
- **Roth IRA Conversions** – If your income is unusually low this year, you may wish to consider converting your traditional IRA into a Roth IRA. Even if your income is at your normal level, with the recent decline in the stock markets, the current value of your Traditional IRA may be low, which provides you an opportunity to convert it into a Roth IRA at a lower tax amount. Thereafter, future increases in value would be tax-free when you retire.
- **Recharacterizing a Roth Conversion** – If you converted assets in a traditional IRA to a Roth IRA earlier in the year, the value of those assets may have declined due to this summer's market drop; and, as a result, you will end up paying more taxes than necessary on the higher conversion-date valuation. However, you may undo that conversion by recharacterizing it, which is accomplished by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA. This must be done via a trustee-to-trustee transfer. You can later (generally after 30 days) reconvert to a Roth IRA.
- **Don't Forget Your Minimum Required Distribution** – If you have reached age 70 1/2, you must make required minimum distributions (RMDs) from your IRA, 401(k) plan and other employer-sponsored retirement plans. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.
- **Take Advantage of the Annual Gift Tax Exemption** – Although gifts do not currently provide a tax deduction, you can give up to $14,000 in 2015 to each of an unlimited number of individuals without incurring any gift tax. There's no carryover from this year to next year of unused exemptions.
- **Expensing Allowance (Sec 179 Deduction)** – Businesses should consider making expenditures that qualify for the business property expensing option.

For tax years beginning in 2015, the expensing limit is $25,000. That means that businesses that make timely purchases will be able to currently deduct most, if not all, of the outlays for machinery and equipment. Note: There is a good chance the Congress will increase that limit before year's end and after this newsletter has gone to press, so watch for further developments.

- **Self-employed Retirement Plans** – If you are self-employed and haven't done so yet, you may wish to establish a self-employed retirement plan. Certain types of plans must be established before the end of the year to make you eligible to deduct contributions made to the plan for 2015, even if the contributions aren't made until 2016. You may also qualify for the pension start-up credit.
- **Increase Basis** – If you own an interest in a partnership or S corporation that is going to show a loss in 2015, you may want to increase your investment in the entity so you can deduct the loss, which is limited to your basis in the entity.

Also keep in mind when considering year-end tax strategies that many of the tax breaks allowed for calculating regular taxes are disallowed for alternative minimum tax (AMT) purposes. These include deduction for property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for mortgage interest, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, accelerating payment of these expenses that would normally be made in early 2016 to 2015 should – in some cases – not be done.