



## **2015 Year-end Tax Newsletter**

The end of 2015 is rapidly approaching, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next. Year-end planning will be challenging again this year. Unless Congress acts, deduction below would not be available for 2015:

- Election to deduct state and local sales taxes instead of state and local income taxes,
- Above the line deduction for tuition and educator expenses,
- Generous bonus depreciation and expenses allowances for business property,
- Qualified charitable distributions that allow taxpayer over 70 ½ to make tax-free transfers from their IRAs directly to charities, and
- Exclusion for up to \$2 million on mortgage debt forgiveness on a principal residence.

As a tax professional, I understand these critical issues and the problems they can pose on you. My goal is to ensure that you always receive superior tax and financial advice, even after tax season is over. It is imperative that we meet to discuss how these potential changes may affect your tax and financial situation. This may reveal the need for a change in your current tax and financial strategy.

Here are a few tax-saving ideas worth considering. Immediately below are for individual taxpayers and the later part are for business owners. Not all actions may apply to your particular situation, but you will likely benefit from many of them.

### **TIPS FOR INDIVIDUAL TAXPAYERS**

#### ➤ **Maximize 401(k) Contributions**

All 401(k) contributions are due by the end of the calendar year. Employees can contribute up to \$18,000 to a 401(k) account in 2015. Workers age 50 and older can make catch-up contributions worth an additional \$6,000, or a total of \$24,000 in 2015, which are also due by December 31. An investor over age 50 who is in the 25 percent tax bracket and maximizes out his traditional 401(k) will save \$6,000 on his federal income tax bill. But even a smaller contribution of \$5,000 would save him \$1,250 in taxes. At a minimum, double check that you have saved enough to get any employer match offered by your company.

#### ➤ **Seize Retirement Plan Opportunities**

There's still time to make contributions to retirement accounts. We urge you to take full advantage of your retirement contribution options for the possible tax benefits now and the income security later. Below are the contribution limits for 2015:

- **Traditional or Roth IRA:** \$5,500 (\$6,500 for age 50 or older)
- **SEP IRA/Defined Contribution/Profit Sharing Plans:** \$53,000 (\$59,000 for age 50 or older)
- **SIMPLE IRA:** \$12,500 (\$15,500 for age 50 or older)
- **401(k)/403(b)/457 Plans:** \$18,000 (\$24,000 for age 50 or older)

Note that there are income limits for contributing to the above-mentioned retirement plans.

#### ➤ **Do a Roth IRA Conversion**

If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA. You may also consider converting if your income in 2015 is significantly

lower (i.e., due to job loss, business losses, etc.) than your anticipated income in 2016. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2015.

If you converted assets in a traditional IRA to a Roth IRA earlier in the year, the assets in the Roth IRA account may have declined in value, and if you leave things as-is, you will wind up paying a higher tax than is necessary. You can back out of the transaction by recharacterizing the rollover or conversion, that is, 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.

➤ **Participate in Employer Tax-Free Fringe Benefits**

Some businesses provide fringe benefits that are tax-free to employees. This includes:

- Accident and health benefits
- Dependent care assistance (up to \$5,000)
- Educational assistance (up to \$5,250)
- Group-term life insurance
- Transportation (commuting) benefits (includes \$130 transit passes, \$250 qualified parking, etc.)

➤ **Plan for Gains and Manage Losses**

Hold off selling appreciated securities before year-end until you've passed the 12-month mark. You'll secure more favorable long-term capital gain tax treatment on the sale. Accelerate capital losses to offset capital gains without significantly changing your investment position, consider selling securities with a loss and replacing them with the securities of another company in the same industry having similar prospects. Wait 31 days and then sell your original securities at a loss.

Taxpayers who are subject to the new 39.6% top rate on income now face a 20% rate on capital gains and dividends, up from 15%. Taxpayers in the 10% and 15% income brackets have a zero capital gains rate and those in the middle will continue to pay 15%.

➤ **Income Deferral/Acceleration**

Deferring income is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2015.

- Defer/receive bonuses before January
- Hold/sell appreciated assets
- Accelerate income to use available carry-forward losses
- Hold/redeem U.S. Savings bonds
- Accumulate/declare special dividend
- Postpone/complete Roth conversions
- Delay/accelerate debt forgiveness income
- Minimize/maximize retirement distributions
- Enter into/sell installment contracts
- Delay/accelerate billable services
- Structure/avoid mandatory like-kind exchange

➤ **Deductions and Credits Acceleration/Deferral**

- Bunch itemized deductions into 2015 and take standard deductions in 2016
- Pay bills in 2015/postpone payments until 2016
- Pay last state estimated tax installments in 2015/delay payment until 2016
- Accelerate economic performance/postpone performance

- Watch AGI limitations on deductions/credits
- Match passive activity income and losses
- Donate to charity appreciated securities that you've held for more than a year.

➤ **Maximize and Bunch Deductions**

One way to deduct more of your medical and miscellaneous expenses is to bunch two years of expenses into one year so you exceed the applicable deduction floor. Consider scheduling and paying for doctor's appointments in 2015 if it would put you over the 10% (7.5% for age 65 and older) of AGI deduction threshold in 2015. Paying 2016 professionals dues, subscriptions and investment management fees in late 2015 could help you surpass the 2% of AGI threshold and gain a deduction for portion of your miscellaneous expenses.

Further you could increase your itemized deduction for taxes by making any January 2016 estimated state or local income tax payment in 2015 or by having your employer withhold more state or local income tax from your last few paychecks. However, these strategies may not be appropriate if you are subject to AMT in 2015.

➤ **Charitable Giving**

If you're looking to minimize what you pay to Uncle Sam and maximize your tax refund amount, make an end-of-the-year charitable gift to a qualified nonprofit of your choice. Depending on your income situation, you may be able to deduct charitable gifts of up to as much as 50 percent of your adjusted gross income. Instead of making a cash contribution to charity, consider donating appreciated securities that you've held for more than one year. You generally may claim a charitable deduction equal to the full fair market value of the donated securities subject to certain limitations and restrictions. And you avoid the capital gains tax that would apply if you sold the securities first and then donated the proceeds. Be sure you keep all the required supporting documentation for your contributions in case the IRS audits your return.

➤ **Take Education Tax Credit**

The American Opportunity Tax Credit was extended through 2017. The credit provides a tax break of up to \$2,500 for qualified college expenses. The Act also made permanent several education-related tax options, including a \$2,000 maximum contribution amount for Coverdell education savings accounts, which can be used to pay certain elementary, secondary and post-secondary expenses.

➤ **Contribute to a Health Savings Account**

Health savings accounts let people with high-deductible health plans set money aside on pre-tax basis to cover the costs of their healthcare. For 2015, the contribution limit for individual policies is \$3,350 (\$6,650 for family). A catch-up contribution of \$1,000 for those 55 or older.

➤ **Maximize Flexible Spending Accounts (FSA) Contribution**

Flexible spending accounts (FSA) can help you lower taxes by setting aside pretax dollars to cover medical bills. In the past, you may have been reluctant to contribute to FSAs because you risked losing money you didn't spend by year-end. You can now contribute up to \$2,550 to an FSA in any year, and new rules allow you to carry over as much as \$500 from one year to the next.

➤ **Adjust Your Federal Income Tax Withholding**

Check your withholdings and estimated tax payments now while you have time to fix a problem. If it looks like you are going to owe income taxes for 2015, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will have to pay any taxes due less the amount paid in and/or withheld. However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2015 liability or, if

smaller, 100% of your 2014 liability (110% if your 2014 adjusted gross income exceeded \$150,000; \$75,000 for married individuals who filed separate returns), penalties will be minimized.

➤ **Foreign Earned Income Exclusion**

In 2015, the foreign earned income exclusion amount is \$100,800. The exclusion applies separately to spouse; if both spouses are qualified individuals, the spouses may exclude up to \$201,600.

➤ **Foreign Bank Account Report (FBAR) Due Date Changed**

If you own a bank account or other financial assets located in a foreign country, you may have a responsibility under the Foreign Account Tax Compliance Act (FATCA) or the Bank Secrecy Act to disclose your ownership to the IRS. The new Form 114 replaces TD F 90-22.1 and is due to Treasury Department by June 30 of the following year. The form must be filed electronically. Failure to report foreign financial assets may result in substantial penalties starting at \$10,000.

For filers required to file an FBAR for tax year 2016 and thereafter, the deadline will be April 15, 2017 and of each subsequent year and filers will be able to seek a six-month extension of the deadline.

➤ **Increased Tax Penalties Related to Obamacare**

Sign-up for a health plan. The Affordable Care Act imposed penalties for those not having qualifying healthcare coverage. Those penalties started at \$95 per adult, or 1% of income above the filing threshold in 2014, but rose to \$325 per adult, or 2% of income above the filing limit in 2015. For 2016, penalties will rise again, hitting \$695 per adult, or 2.5% of income.

➤ **Tax On Net Investment Income (NIIT)**

The 3.8% net investment income tax became effective in 2013. This tax applies to single filers with modified adjusted gross income (AGI) of more than \$200,000 and joint filers whose modified AGI exceeds \$250,000. The range of investment income subject to the 3.8% tax is broad – including interest, dividends, capital gains, rental and royalty income, non-qualified annuities and businesses that are considered “passive activities.” Medicare surcharge of .9% may also apply to earnings.

Consider investing in tax-exempt municipal bonds since the bond interest is not included in net investment income for surtax purposes. Keeping income below the thresholds, spreading income out over a number of years or offsetting the income with both above-the line and itemized deduction are possible approaches to avoid the NIIT. Every taxpayer’s situation different and planning for the NIIT requires a very personalized strategy.

➤ **Estate and Gift Taxes**

For 2015, the unified federal gift and estate tax exemption is a generous \$5.43 million, and the federal estate tax rate is historically reasonable at 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes that have nothing to do with taxes. Contact us if you think you could use an estate planning tune-up. The \$14,000 annual gift exclusion amount remains unchanged.

➤ **Don’t Overlook the Alternative Minimum Tax (AMT)**

The AMT is a separate tax calculation that is aimed at ensuring high-income taxpayers pay a minimum amount of tax. However, it increasingly affects middle-income taxpayers and you may be surprised at some of the triggers that subject you to the AMT. These triggers generally include items that can provide you with substantial deductions, such as:

- Paying high state or local taxes;
- Cashing in stock options;
- Spending home equity line dollars on something other than a home improvement;

- Reporting business depreciation on your return;
- Reporting many miscellaneous deductions; or
- Even having a large number of dependents

The AMT exemption increased for 2015, to \$53,600 for single taxpayers and to \$83,400 for married couples filing jointly. There are several ways to plan for the AMT; for example, you can lower taxable income through retirement account contributions or by managing the capital gains or dividends you receive.

## **TIPS FOR BUSINESSES AND BUSINESS OWNERS**

### ➤ **Make the Most of “Expensing”**

Think about purchasing equipment (with a loan if necessary) if you’ll be able to claim up to \$25,000 under Section 179 for equipment purchased in 2015. But if your total asset purchases in 2015 are already close to the \$25,000 limit, you may want to postpone buying additional items until 2016.

### ➤ **Accelerate Deductions**

Plan to pay vendors to include expenses in 2015. Look at having equipment or vehicle repairs done or purchasing supplies before year-end if these expenses would be incurred in 2016 anyway. Note that the IRS has issued new guidelines clarifying the difference between an immediately deductible repair and an improvement which must generally be capitalized and deducted over several years.

### ➤ **Establishing a Retirement Plan.**

If you own a business, you may contribute to a retirement plan for yourself and any eligible employees on a tax-deductible basis. There are several types of tax-favored plans that may meet your needs. To qualify for a tax deduction in 2015, your retirement plan generally must be in place before the end of the year. Exceptions are IRA and SEP plans which can be set up through April 15, 2016.

### ➤ **Small Employer Health Insurance Credit**

In 2015, a credit for up to 50% of the cost of employee health insurance coverage purchased through the SHOP marketplace is available to eligible small business with no more than 25 full-time equivalent employees and average annual wages of no more than \$50,000 per employee. To qualify you must contribute at least 50% of the total premium cost.

### ➤ **Employee Tax Free Fringe Benefits**

Businesses can provide valuable fringe benefits that are tax free to employees and tax deductible by the firm. This includes, dependent care assistance, educational assistance, group-term life insurance, and transportation (commuting) benefits.

### ➤ **Section 179 and Bonus Depreciation.**

In 2015, expensing election limit under Section 179 has been reduced to \$25,000 but only if the total amount of qualified asset purchases does not exceed \$200,000. No bonus depreciation is available for the 2015.

### ➤ **Repair/Capitalization Final Regulations**

Business may be able to take advantage of the “de minimis safe harbor election” to expense the costs of inexpensive assets and materials and supplies, assuming the cost do not have to be capitalized under the Code Sec 263A uniform capitalization rules. To qualify for the election, the cost of a unit of property cannot exceed \$5,000 if the taxpayer has an applicable financial statement (AFS; a certified audited financial statement along with an independent CPA’s report). If there is no AFS, the cost of a unit of property cannot exceed \$500. Where the UNICAP rules are not an issue, purchase such qualifying items before the end of 2015.

➤ **Domestic Production Activity Deduction**

If your business qualifies for the domestic production activities deduction for its 2015 tax year, consider whether the 50%-of W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2015 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2015, even if the business has a fiscal year.

➤ **Working from Home**

The IRS recently provided an optional safe-harbor method that makes it easier to determine the amount of deductible home office expenses. Starting in tax year 2013, the new rules allow taxpayers to deduct \$5 per square foot of home office space (up to 300 square feet). In addition, deductions such as interest and property taxes allocable to the home office are still permitted as an itemized deduction for taxpayers using the safe harbor.

➤ **Check your Partnership and S Corporation Stock Basis.**

If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. If you expect the Partnership or S Corporation to generate a loss this year and you lack sufficient basis to claim a full deduction, you may want to make a capital contribution before year end.

➤ **Consider Incorporating**

In addition to the creditor protection it provides business owners, doing business as corporation can carry certain other advances. Many small business owners elect to be taxed as S-Corporation. An S-Corporation generally pays no tax on its earnings (no double taxation). Instead, the owners report their share of corporate earnings on their individual returns.

Note that Congress is still working on some tax bills and we won't know those changes until early next year. For a more updated list, go to [http://www.eas-cpa.com/pdf/2015\\_Year-end\\_tax\\_updates.pdf](http://www.eas-cpa.com/pdf/2015_Year-end_tax_updates.pdf).

The information above is not meant, and should not be relied on, as advice for any person's specific tax situation. Each item above is a very condensed version of the rules and details have been omitted for brevity. There are literally hundreds of other changes, extensions and deletions to be considered for tax planning.

As always, year-end tax planning does not occur in a vacuum. It must take into account each taxpayer's particular situation and planning goals, with the aim of minimizing taxes to the greatest extent possible. While many taxpayers will come out ahead by following the traditional approach of deferring income and accelerating expenses, others, including those with special circumstances, should consider their options carefully. In such situations, taxpayer should keep in mind that most traditional techniques for deferring income and accelerating expenses can be reversed to achieve the opposite effect.

Should you have any questions regarding the above, please don't hesitate to contact us. Call us today at (415) 362-8921 to schedule a year-end planning appointment. **Note that our office will be closed from December 25 through January 1.**

Thank you for your business and your continued support.

Sincerely,

Emmanuel (Noel) A. Santos, Esq. CPA,  
President

**Emmanuel A Santos JD CPA, Incorporated**

447 Sutter Street, Suite 714, San Francisco, CA 94108

Tel: (415) 362-8921 x 102 Fax: (415) 362-8924 Cell: (415) 412-5839

Email: noel@eas-cpa.com Web: www.eas-cpa.com Skype: eas-cpa

[Financial Services](#) | [Retirement](#) | [Insurance](#) | [College Planning](#) | [Realty](#) | [Estate](#) | [Tax](#) | [Accounting](#) | [Business Development](#)

Emmanuel A. Santos, JD CPA Incorporated is not a registered broker/dealer or independent investment advisory firm. Emmanuel A. Santos is a Registered Representative of H.D. Vest Investment Services<sup>SM</sup>. Securities offered through H.D. Vest Investment Services<sup>SM</sup>, Member: SIPC, Advisory Services offered through H.D. Vest Advisory Services<sup>SM</sup>, 6333 North State Highway 161, Fourth Floor, Irving, Texas 75038, (972) 870-6000. CA Insurance# 0B99983 CA Real Estate# 01302678