friedman kannenberg
and company pc

Certified Public Accountants

17 Talcott Notch Road
Farmington, CT 06032
Tel: 860.677.9191
Fax: 860.674.9602
info@fkco.com
www.fkco.com

2015 YEAR-END TAX PLANNING TIPS

The following are just some of the 2015 actions you can take that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular circumstances, but you (or a family member) will likely benefit from one or more of them. We can narrow down the specific action(s) you can take, once we speak or meet with you to tailor a particular plan. In the meantime, the following action list is a good place to start before we meet to advise you on which tax-saving moves make most sense.

Year-End Tax Planning Moves for Individuals

- **Realize losses on stock holdings**. You can generate capital losses by selling stocks that have fallen in value below their original purchase price. If desirable, you can buy back the same securities at least 31 days later.
- **Postpone income and accelerate deductions**. By postponing income until 2016 and accelerating deductions into 2015, you can easily lower your 2015 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2015 that 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. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. But please note in some cases it may pay to actually accelerate income into 2015. For example, this 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 plans to purchase health insurance on a health exchange and is eligible for a premium assistance credit.
- **Convert Traditional IRA to Roth IRA**. If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2015.
- **Re-characterize IRA Conversion**. If you rolled traditional IRA assets into a Roth IRA earlier in the year and those assets have declined in value, you could wind up paying a higher tax than is necessary if you leave things as is. You can back out of the transaction by re-characterizing the 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.
- **Defer compensation**. It may be advantageous to try to arrange with your employer to defer, until 2016, a bonus that may be coming your way.

- **Use Credit Cards for year-end business purchases**. Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2015 deductions even if you don't pay your credit card bill until after the end of the year.
- **Pay State & Local Taxes Before Year-End**. If you expect to owe state and local income taxes when you file your 2015 return in April, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to get the deduction of those taxes into 2015 (as long as you're not subject to the Alternative Minimum Tax (AMT) in 2015).
- **Consider The Effect of AMT**. Always bear in mind what effect year-end planning moves will have on your AMT income, as many tax breaks allowed in the calculation of regular tax are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. Simply, if you are subject to the AMT for 2015, these types of deductions should not be accelerated.
- **Bunching Deductions**. You may be able to save taxes this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses, charitable contributions and other itemized deductions.
- **Pay Contested State & Local Taxes**. You may want to pay contested state and/or local taxes to be able to deduct them this year, while continuing to contest them next year.
- **Maximize Casualty Losses**. You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.
- **Take Required Minimum Distributions (RMDs).** Take required minimum distributions (RMDs) from your IRA, 401(k) or other employer-sponsored retirement plan. RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-1/2. Failure to take a RMD can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70-1/2 in 2015, you can delay the first required distribution to 2016. But if you do, you will have to take a double distribution in 2016—the amount required for 2015 plus the amount required for 2016. Think twice before delaying 2015 distributions to 2016, as bunching income into 2016 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2016 if you will be in a substantially lower bracket that year.
- **Maximize Your HSA**. Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Also, if you can make yourself eligible to make health savings account (HSA) contributions by Dec. 1, 2015, you can make a full year's worth of deductible HSA contributions for 2015.
- **Make Gifts up to $14,000**. Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $14,000 made in 2015 to each of an unlimited number of individuals. Remember…you can't carry over unused exclusions from one year to the next.

Year-End Tax-Planning Moves for Businesses & Business Owners

- **Year-End Equipment Purchases.** Businesses should buy needed machinery and equipment before the end of the year. Under the applicable "half-year convention," a half-year's worth of depreciation deductions is allowed for 2015.
- **Section 179 Election**. Although the Section 179 business property expensing option is greatly reduced in 2015 (unless retroactively changed by legislation before the end of the year, as they've done in the past), making expenditures that qualify for this option can still get you thousands of dollars of current deductions that you wouldn't otherwise get. For tax years beginning in 2015, the expensing limit is $25,000 on equipment purchases in the current tax year up to $200,000.
- **Expense Small Property Costs**. Businesses may be able to take advantage of the "de minimis safe harbor election" to expense the cost of inexpensive assets and materials and supplies (assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules). To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $500.
- **Income Acceleration**. A corporation should consider accelerating income from 2016 to 2015 if it will be in a higher bracket next year. Conversely, it should consider deferring income until 2016 if it will be in a higher bracket this year.
- **Estimated Tax Payments**. A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2015 (and substantial net income in 2016) may find it worthwhile to accelerate just enough of its 2016 income (or to defer just enough of its 2015 deductions) to create a small amount of net income for 2015. This will permit the corporation to base its 2016 estimated tax installments on the relatively small amount of income shown on its 2015 return, rather than having to pay estimated taxes based on 100% of its much larger 2016 taxable income.
- **Defer Cancellation of Debt (COD) Income**. To reduce 2015 taxable income, if you owe money to a party willing to cancel that debt, consider deferring the debt-cancellation event until 2016.
- **Disposition of Passive Activity**. To reduce 2015 taxable income, consider disposing of a passive activity in 2015 if doing so will allow you to deduct suspended passive activity losses.
- **Review Tax Basis of Investments**. If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can review which items will work best for you as well as let you know of any expired tax breaks that Congress revives at the last minute to assure you don't miss out on any resuscitated tax-saving opportunities.