2015 YEAR-END TAX PLANNING CHECKLIST
Year-end tax planning is especially challenging this year because Congress has yet to act on a host of tax breaks that expired at the end of 2014. Some of these tax breaks may be retroactively reinstated and extended, but Congress may not decide the fate of these tax breaks until the very end of this year or possibly not until next year.

**For individuals** these breaks include:
- Option to deduct state and local sales and use taxes instead of state and local income taxes
- Above-the-line deduction for qualified higher education expenses
- Tax-free IRA distributions for charitable purposes by those age 70-1/2 or older
- Exclusion for up to $2 million of mortgage debt forgiveness on a principal residence

**For businesses** they include:
- 50% bonus first-year depreciation for most new machinery, equipment and software
- $500,000 annual expensing limitation
- Research tax credit
- 15-year write-off for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property

**Higher-income-earners** have unique concerns to address when mapping out year-end plans. They must be wary of the additional 0.9% Medicare tax that applies to individuals receiving wages and other earned income in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately) and the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: 1) net investment income, or 2) the excess of modified adjusted gross income over an unindexed threshold amount of $250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case.

As year-end nears, a taxpayer’s approach to minimizing or eliminating the 3.8% surtax will depend on his/her estimated modified adjusted gross income and net investment income for the year. Some taxpayers should consider ways to minimize additional net investment income for the balance of the year; others should try to see if they can reduce modified adjusted gross income other than net investment income, and other individuals may need to consider ways to minimize both.

Yeo & Yeo’s year-end tax planning checklist of additional action items may help you save tax dollars if you act before year-end.

These are just some of the year-end steps that can be taken to save taxes. Not all actions may apply in your particular situation, but you or a family member can likely benefit from many of them.

Your Yeo & Yeo tax professional can help narrow down the specific actions that you can take and tailor a tax plan for your current situation and future changes. Please review the following list and contact us at your earliest convenience so that we can help advise you on which tax-saving moves to make.

For more extensive tax information, visit Yeo & Yeo’s Tax Guide Online at yeoandyeo.com.
Realize losses on stocks or other investments while substantially preserving your investment position. This can be done in several ways. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.

Postpone income until 2016 and accelerate deductions into 2015 to 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. 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. However, 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.

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 if eligible to do so. 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 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, if doing so proves advantageous.

It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2016.

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.

If you expect to owe state or local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes or make estimated tax payments before year-end to pull the deduction of those taxes into 2015 if doing so won’t create an alternative minimum tax problem.

If you are facing a penalty for underpayment of estimated tax, and having your employer increase your withholding isn’t viable or won’t sufficiently address the problem, take an eligible rollover distribution from a qualified retirement plan before the end of 2015. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2015. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includable in income for 2015, but the withheld tax will be applied pro rata over the full 2015 tax year to reduce previous underpayments of estimated tax.

Estimate the effect of any year-end planning moves on the Alternative Minimum Tax (AMT) for 2015, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes 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. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes in the case of a taxpayer who is over age 65 or whose spouse is over age 65 as of the close of the tax year. As a result, in some cases, deductions should not be accelerated.

You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.

You may be able to save taxes this year and next by applying a bunching strategy to “miscellaneous” itemized deductions (i.e., certain deductions that are allowed only to the extent they exceed 2% of adjusted gross income), medical expenses and other itemized deductions.

You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.

Take required minimum distributions (RMDs) from your IRA, 401(k) plan or other employer-sponsored retirement plan if you have reached age 70-1/2. Failure to take a required withdrawal 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—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, if you will be in a substantially lower bracket in 2016 it could be beneficial to take both distributions in that year.

- Increase the amount you set aside for next year in your employer’s health flexible spending account if you set aside too little for this year. The maximum annual contribution to a health flexible spending account that a cafeteria plan can allow is $2,500.

- If you are eligible to make health savings account contributions in December of this year, you can make a full year’s worth of deductible health savings account contributions for 2015. This is so even if you first became eligible on December 1, 2015.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give $14,000 in 2015 to each of an unlimited number of individuals, but you can’t carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

YEAR-END PLANNING

BUSINESSES & OWNERS

- Businesses should consider buying and placing in service machinery and equipment before year-end. Under the generally applicable “half-year convention,” they secure a half-year’s worth of depreciation deductions for the first ownership year.

- Although the business property expensing option is greatly reduced in 2015 (unless legislation retroactively enhances this option for 2015), consider buying and placing in service machinery and equipment that qualify. For tax years beginning in 2015, the expensing limit is $25,000, and the investment-based reduction in the dollar limitation starts to take effect when eligible property placed in service in the tax year exceeds $200,000.

- Businesses 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 costs do not have to be capitalized under the Code Sec. 263A uniform capitalization rules. To qualify for the election, the cost of an expensed unit of property cannot exceed $5,000 if the taxpayer has an applicable financial statement, e.g., a certified audited financial statement. If there is no applicable financial statement the cost of an expensed unit of property cannot exceed $500. Where appropriate, purchase such qualifying items before the end of 2015.

- A corporation should consider accelerating income from 2016 to 2015 where doing so will prevent the corporation from moving into a higher bracket next year. Conversely, it should consider deferring income until 2016 where doing so will prevent the corporation from moving into a higher bracket this year.

- A corporation should consider deferring income until next year if doing so will preserve the corporation’s qualification for the small corporation Alternative Minimum Tax exemption for 2015. Note that there is never a reason to accelerate income for purposes of the small corporation Alternative Minimum Tax exemption because if a corporation doesn’t qualify for the exemption for any given tax year, it will not qualify for the exemption for any later tax year.

- 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.

- 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.

- To reduce 2015 taxable income, consider deferring a debt-cancellation event until 2016.

- 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.

- 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.