YEAR-END FINANCIAL & TAXPLANNING

The holiday season is upon us and 2015 is drawing to a close, which means it is time to consider any last minute tax strategies that may save you money.

Tax Rates

Federal tax rates range from 0% to 39.6%, depending on taxable income. You move from the 15% federal bracket to the 25% bracket when your taxable income hits $74,900 on a joint return ($37,450 for single filers); and you hit the 28% bracket when taxable income exceeds $151,200 on a joint return ($90,750 for single filers).

Knowing your bracket is helpful, particularly if your income varies substantially from one year to another. For example, if you are in the 15% federal bracket or lower, you pay no federal taxes on qualified dividends or long-term capital gains.

In addition, if you are close to moving from one bracket to a higher or lower bracket, some of the timing strategies discussed below may be helpful.

Retirement Plan Contributions

You don't have much time left to make contributions for 2015 to an employer 401(k) retirement plan, so if you've been lazy, now is the time to jump on it. Maximum contributions for 2015 are $18,000 ($24,000 for those 50 or older).

However, if you are making IRA contributions for 2015, there's still plenty of time, as you have until April 15, 2016 to make contributions effective for the 2015 tax year. The IRA contribution limit for 2015 is $5,500 ($6,500 for those 50 or older).

Roth Conversions

If you already have a traditional IRA, you may want to evaluate converting it to a Roth IRA this year. Why would you do this? If 2015 is a particularly low-income year for you, converting all or a portion of an existing IRA to a Roth means you are paying the tax now, in a low-tax year, and moving the money to a Roth IRA, where it will be forever free of tax.

Medicare Tax

In addition to the Medicare tax withheld from your wages, there are two other Medicare taxes to be aware of: First, there is a 3.8% tax on investment income if your income exceeds $250,000 on a joint return ($200,000 for single individuals). Second, there is a 0.9% tax on wages and self-employment income in excess of $250,000 on a joint return ($200,000 for single individuals). Should your income be anywhere close to these limits – admittedly a good problem to have – you may want to see if you can take any action to keep your income beneath the tax threshold.

Alternative Minimum Tax

Many deductions taken for regular tax purposes are not allowed for alternative minimum tax (AMT) purposes. Deductions which typically throw taxpayers into an AMT situation include high state income taxes, interest on home equity loans, a high number of dependent deductions, or a large amount of miscellaneous itemized deductions. Employer incentive stock options are also a major trigger for AMT. If you are not already in the clutches of AMT, then you obviously try to avoid falling into it. However, if you are already impacted by AMT, you may need to rethink some traditional planning strategies, as they may be of no benefit.

IRA Charitable Contributions

For a number of years, taxpayers older than 70 ½ and taking required minimum distributions from IRAs have been able to direct some of their required distributions to their church or other charity, resulting in the distribution not being taxable on their return. However, this provision is not currently available for the 2015 year. Legislation has been introduced to extend it, but as of this writing, no action has been taken.

Accelerating or Deferring

Depending on your tax situation, year-end is the time to consider accelerating 2016 income or deductions into 2015 or trying to defer 2015 income or deductions into 2016. Here are some examples:

- Review your investment portfolio. If you have realized taxable gains, consider offsetting the gains by selling other investments where you have unrealized losses.
- Speed up or slow down the exercise of any stock options you may have.
- Postpone into 2016 or accelerate into 2015 some of your charitable contributions, property tax payments, medical expenses, or state estimated income tax payments.

Gerald A. Townsend, CPA/PFS/ABV, CFP®, CFA®, CMT is president of Townsend Asset Management Corp., a registered investment advisory firm offering comprehensive wealth management expertise to its clients.
Email *Gerald@AssetMgr.com* for more information. And for the latest news and updates, follow Townsend's growing platforms on Linked In, Facebook and Twitter.