

YEAR-END YEAR-ROUND



tax planning 2015

GUIDE



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Are there steps you can take that will lower your federal income-tax liability? Given the tax law's complexity, the answer is probably "yes." Effective tax planning can help reduce your tax bill, leaving you with more money to meet other financial obligations and pursue your goals.

In *Year-End Tax Planning for 2015*, you'll find numerous suggestions for lowering 2015 personal and business income taxes. By necessity, the strategies are general in nature. We recommend you secure professional tax advice relevant to your specific tax situation before implementing any of the ideas presented.

A review of your tax picture before year-end can let you know where you stand with your 2015 taxes and suggest potential tax-saving opportunities you may have overlooked. Make sure you are doing all you can to minimize your taxes by taking action soon.



Your Personal Taxes

Even in years when the tax law doesn't change much, changes in your personal situation may affect your taxes. As you begin to assess your 2015 tax picture, make sure you consider the tax impact of life changes, such as marriage, divorce, the birth of a child, a child starting college, the death of a spouse, a move, a new job or business venture, or retirement.

2015 — a closer look

The federal income-tax rate schedules for 2015 are shown on page 3. Notice that the income brackets are somewhat higher than they were for 2014, reflecting IRS inflation adjustments, but the tax rates have not changed.

Personal exemption allowance.

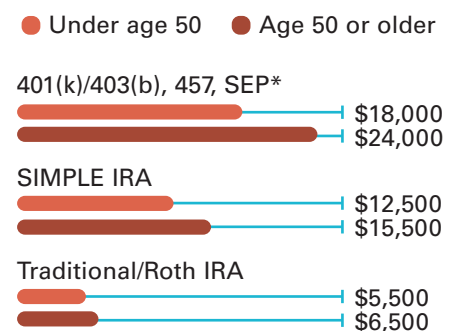
Each personal exemption you can claim (for yourself, your spouse, and your dependents) will reduce your 2015 taxable income by as much as \$4,000, up slightly from \$3,950 in 2014.

PEP/Pease provisions. Once your adjusted gross income, or AGI, exceeds a specified threshold for your filing status, the tax law phases out personal exemptions (the PEP provision) and limits certain itemized deductions (the Pease provision), increasing your effective tax rate and your tax liability.

For 2015, personal exemptions phase out for single filers with AGI between \$258,250 and \$380,750, for married couples filing jointly with AGI between \$309,900 and \$432,400, for heads of household with AGI between \$284,050 and \$406,550, and for married taxpayers filing separately with AGI between \$154,950 and \$216,200. The itemized deduction limitation becomes applicable once AGI exceeds the lower end of the range.

Retirement plan limits. You may be able to contribute more to a workplace retirement plan this year because the IRS has increased certain limits for inflation. (The maximum individual retirement account (IRA) contribution stays the same.) As with your own pretax salary deferrals, any employer contributions to your plan account are not taxed to you until distributed.

Retirement Plan Contribution Limits for 2015



Note that not all employer plans permit participants who have reached age 50 to contribute the higher amounts indicated. And additional contribution limitations could apply.

* Limits apply to most 457 plans. Only SEP plans established before 1997 (SAR-SEPs) may allow employees to make pretax contributions.

IRA rollovers. The IRS has placed a new restriction on IRA-to-IRA rollovers: Generally, only one 60-day rollover is allowed per year. However, you still can have funds directly transferred between IRAs as frequently as you wish.

Converting after-tax contributions. Some retirement plans allow participants to make after-tax contributions in addition to regular pretax or Roth salary deferrals. The IRS now allows a participant who is receiving a distribution of his or her account balance to have the tax-deferred portion transferred to a traditional IRA and the after-tax portion transferred to a Roth IRA. When



properly arranged, no taxes are due on the rollovers. If you are a high earner and your plan allows it, consider making

after-tax contributions with the intention of converting those amounts to a Roth IRA when you leave the plan.

2015 Tax Rates

Taxable income brackets

Rate (%)	Single	Head of household	Married filing jointly (and surviving spouses)	Married filing separately
10	\$0 – 9,225	\$0 – 13,150	\$0 – 18,450	\$0 – 9,225
15	\$9,226 – 37,450	\$13,151 – 50,200	\$18,451 – 74,900	\$9,226 – 37,450
25	\$37,451 – 90,750	\$50,201 – 129,600	\$74,901 – 151,200	\$37,451 – 75,600
28	\$90,751 – 189,300	\$129,601 – 209,850	\$151,201 – 230,450	\$75,601 – 115,225
33	\$189,301 – 411,500	\$209,851 – 411,500	\$230,451 – 411,500	\$115,226 – 205,750
35	\$411,501 – 413,200	\$411,501 – 439,000	\$411,501 – 464,850	\$205,751 – 232,425
39.6	Over \$413,200	Over \$439,000	Over \$464,850	Over \$232,425

Additional Medicare tax Applies to wages/self-employment income in excess of:

0.9	\$200,000	\$200,000	\$250,000	\$125,000
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Net investment income tax May apply if modified AGI exceeds:

3.8	\$200,000	\$200,000	\$250,000	\$125,000
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It's about timing

Focus on the timing of income and expense items as year-end approaches. If you expect your tax bracket to be lower next year, or if you expect your 2015 and 2016 tax brackets to be the same, look for ways to defer the receipt of late-year taxable income to early 2016 (if economically feasible) and to push the payment of deductible expenses into 2015. Conversely, if you expect that your marginal tax rate will be higher in 2016 than in 2015, you may benefit from accelerating taxable income into the 2015 tax year and by waiting until 2016 to pay deductible expenses. You'll find some potential timing strategies in the "Timing Moves" sidebar.

Consider the AMT. However, when you are looking at timing strategies, be sure that potential exposure to the alternative minimum tax (AMT) is taken into account. The AMT is calculated separately from your regular tax. With the AMT calculation, you don't get the benefit of certain tax deductions and credits that are available for regular tax purposes, and some types of income



that are exempt from regular tax are taxable for AMT purposes. As a result, even though the maximum 28% AMT rate is substantially lower than the 39.6% top marginal tax rate, a taxpayer's AMT liability may be higher. When AMT exceeds regular tax, you're required to pay the extra AMT in addition to your regular tax.

For planning purposes, it's helpful to identify some of the items that can trigger the AMT. These include:

- ▶ A large deduction for state income taxes
- ▶ The exercise of incentive stock options (the spread between the stock's market price and the exercise price of the option must be included in income for AMT purposes)
- ▶ A higher-than-average number of dependency exemptions
- ▶ Interest from certain "private activity" municipal bonds (though tax-exempt for regular tax purposes, the interest must be included in income for AMT purposes)
- ▶ A large long-term capital gain (state and local income tax paid on the gain is not AMT deductible)

TIMING MOVES

Here are some possible strategies for shifting taxable income into 2016:

- ▶ Arrange for a bonus or late-year commission to be paid after year-end.
- ▶ Wait until 2016 to receive a taxable distribution from your retirement plan or IRA (but be sure to take any minimum distribution that's required if you have reached age 70½).

- ▶ Delay the receipt of late-year consulting fees or other self-employment income until early next year if you are a cash-basis taxpayer.

If you are looking to accelerate deductions into 2015, you might:

- ▶ Make charitable donations before year-end. Pay by credit card or mail your check by December 31.
- ▶ Pay any margin interest you owe before year-end.

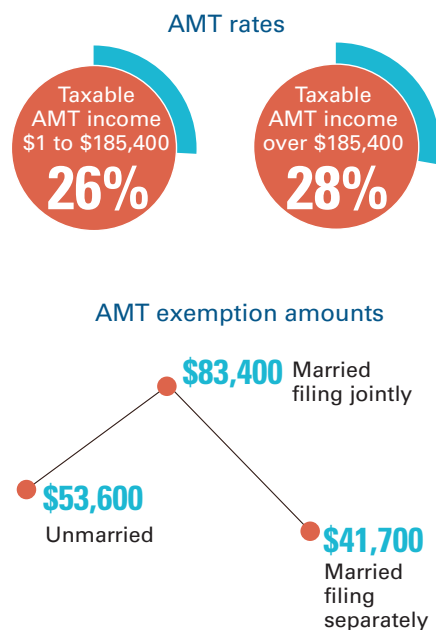
- ▶ Make your January estimated state and local income tax payment by December 31 and pay enough to cover any projected balance due. Or have more state and local income tax withheld from your pay.

- ▶ Prepay next year's real estate taxes by December 31.

As discussed earlier, always consider the potential AMT ramifications of timing strategies such as these before you implement them.

Having a tax projection done before year-end can help you determine if you are likely to owe AMT for the 2015 tax year. If so, you'll want to avoid prepaying state and local income taxes, real estate taxes, and expenses that are claimed as miscellaneous itemized deductions, such as investment management fees. Since these expenses are not deductible for AMT purposes, you'd get no tax benefit from prepaying them in 2015.

2015 AMT Rates and Exemption Amounts



The exemptions are phased out for higher income taxpayers and subject to annual inflation adjustment.

Bunch expenses. Because certain expenses are deductible only in the amount that exceeds a percentage of your AGI (called the "floor"), you may benefit from bunching those expenses in one tax year to the extent possible. For example, in 2015, the deduction floor for medical and dental expenses is 10% of AGI (7.5% of AGI if you and/or your spouse is age 65 or over at year-end). Let's say the 10% floor applies and you have AGI of \$100,000. In this example, you would need to have at least \$10,001 of medical and dental expenses before you could deduct the first dollar of your expenses.

Because the floor is so high, concentrating medical and dental expenses in a single tax year, to the extent possible, can be a good strategy. For example, you might schedule and pay for elective surgery, dental work, and eye appointments in 2015 if doing so would result in a deduction. Otherwise, you might postpone those costs until next year in hopes of being able to deduct the expenses on your 2016 return.

Similarly, there's a 2%-of-AGI floor on the itemized deduction for miscellaneous expenses and employee business expenses. If it will help you surpass the floor and gain a deduction, you might want to pay professional dues, subscriptions, investment management fees, and other miscellaneous expenses before year-end.

Capital gains and losses

As part of your year-end tax planning, you will want to review year-to-date investment sale transactions (in taxable accounts) to see where you stand with respect to realized capital gains and losses. You may find you can lower your 2015 taxes by taking certain additional steps to manage capital gains and losses before year-end.

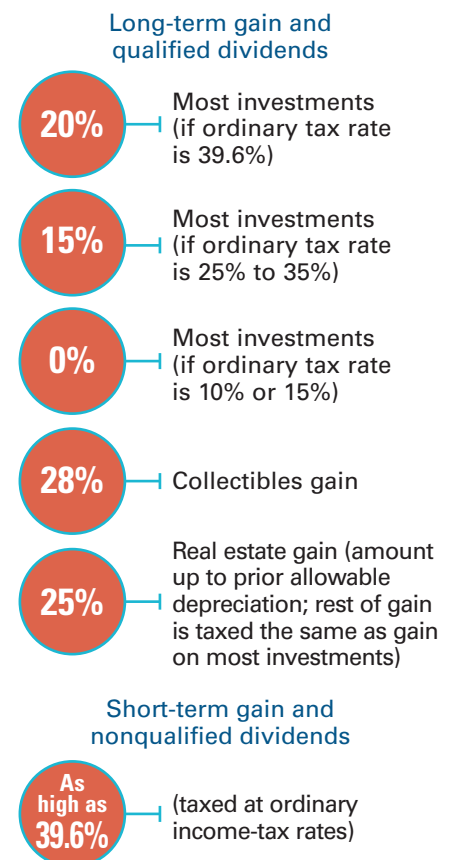
Be mindful of holding periods. The length of time you hold an investment

before selling it generally determines whether a capital gain or loss is considered to be long term or short term.

- ▶ The short-term holding period is one year or less.
- ▶ The long-term holding period is more than one year.
- ▶ If you inherit securities or other property, you are considered to have held the property more than one year (long term), regardless of your actual holding period.

Holding periods are important because net long-term capital gains are taxed at favorable rates (see table).

Capital Gain/Dividend Rates



Certain higher income taxpayers are also subject to the additional 3.8% net investment income tax.

Understand the netting process.

To plan for capital gains and losses, it's important to understand how the tax law's netting process works. Any capital losses from the current year are first applied to offset capital gains that are in the same category as the losses (either short term or long term). Then, any additional capital loss is applied against capital gains in the other category. Ideally, any taxable net gain you have will be long term so you'll benefit from the preferential tax rates.

If you have an overall net capital loss, you may use up to \$3,000 of the loss (\$1,500 if married filing separately) to offset your ordinary income. Any additional capital loss you can't deduct currently is carried forward for deduction in future years until the loss is used up. (A decedent's capital loss that can't be used on his or her final income-tax return is forfeited.)

Avoid wash sales. If you sell securities at a loss and purchase substantially identical securities within 30 days before or after the sale, you have a "wash sale." Capital losses from wash sales are not deductible but instead are taken into account in figuring your cost basis in the stock you acquired in the wash sale.

So what might you do if you want to take capital losses to offset capital gains without significantly changing your investment position? Consider "doubling up" on the securities, waiting 31 days, and then selling your original securities at a loss. Similarly, you could sell the securities that have decreased in value and replace them with securities of another company in the same industry having similar prospects. Either strategy would avoid the wash-sale rules.

Qualified dividends

Most regular dividends paid by U.S. corporations (and certain foreign

Taxes are only one factor to consider when planning investment transactions. That said, here are some strategies that potentially can save you tax dollars:

- ▶ To secure favorable long-term capital gain treatment, hold off on selling appreciated securities until you've passed that critical 12-month mark.
- ▶ If you have significant capital gains in 2015, consider realizing

some offsetting capital losses on investments you no longer want to own. Just be sure to weigh all relevant factors before you make a decision.

- ▶ Consider delaying late-year mutual fund purchases until after the fund's ex-dividend date. This can avoid having the most recently declared dividend credited and taxable to you this year.

corporations) can qualify for taxation at the favorable capital gains rates if the investor holds the stock for a minimum period:

- ▶ For common stock, shares must be held for more than 60 days during the 121-day period beginning 60 days before the stock's ex-dividend date
- ▶ For certain preferred stock dividends, shares must be held for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date

These holding period rules may be a consideration when you are weighing a purchase or sale of dividend-paying stock.

Net investment income tax

The tax law imposes an *additional* 3.8% net investment income tax on higher income investors. The tax is calculated by multiplying 3.8% by *the lesser of*: (1) your net investment income or (2) the excess of your modified AGI over the relevant threshold for your filing status.

This means you won't owe the 3.8% tax, regardless of the amount of your net investment income, if your modified AGI is less than or equal to the applicable threshold for your filing status:

- ▶ \$200,000 (single/head of household)
- ▶ \$250,000 (married filing jointly)
- ▶ \$125,000 (married filing separately)

For example, assume a single taxpayer has \$50,000 of net investment income and modified AGI of \$185,000. The

taxpayer has no liability for the 3.8% tax because \$185,000 is less than the \$200,000 modified AGI threshold for a single filer.

Net investment income can include income from interest, dividends, annuities, royalties, rents, net capital gain, and passive trade or business activities. It does *not* include any amount that's subject to self-employment tax, amounts distributed from retirement plans, exempt interest on state and local bonds, or gain on the sale of a principal residence to the extent the gain is excludable from income.

Lessen exposure. Consider these strategies if your modified AGI is high enough for the 3.8% net investment income tax to be a factor:

- ▶ When selling appreciated property, such as investment real estate, consider an installment sale. With an installment sale, you spread your gain — and the taxes on that gain — over more than one tax year. (The installment sale method isn't available to dealers and can't be used for sales of publicly traded securities or for certain sales to related parties.)
- ▶ Invest in tax-exempt municipal bonds, since the bond interest is not included in net investment income for surtax purposes.
- ▶ Convert passive income, which is potentially subject to the 3.8% tax, into active income by increasing the number of hours you participate in an entity's affairs to meet the tax law's "material participation" standards.

Year-end reminders

You want to pay enough income tax during the year to avoid an IRS penalty. Generally, your estimated tax payments and/or payroll income-tax withholding, at minimum, must equal the lower of (1) 90% of the current year's tax or (2) 100% (or 110%) of the prior year's tax liability. The 110% requirement applies if your 2014 AGI was more than \$150,000 (\$75,000 if your filing status was married filing separately). A penalty will not apply if the tax shown on your 2015 return (after withholding tax paid) is less than \$1,000.

When you are checking your tax payments, be sure to take into account any potential liability you may have for the 0.9% additional Medicare tax. The tax applies to wages and self-employment earnings above a specified threshold for your filing status: \$200,000 (single/head of household), \$250,000 (married filing jointly), or \$125,000 (married filing separately).

Employers are required to withhold the additional Medicare tax from any wages in excess of \$200,000, regardless of filing status or other income. If you are self-employed, include the additional Medicare tax, if applicable, in your estimated payments.

Estimated taxes are generally paid quarterly in equal installments. If you missed a payment earlier this year or didn't pay enough, you may face an underpayment penalty. If you are facing a potential penalty, consider:

- ▶ Having more income tax withheld from your or your spouse's paychecks before year-end.
- ▶ Taking an eligible rollover distribution from your qualified retirement plan account, if you're eligible for one, before the end of 2015. Income taxes will be withheld from the distribution. You can then roll over the amount you

receive — plus the amount of the withholding — tax free into a traditional IRA or another plan that accepts rollover contributions.

Because the IRS applies withheld tax pro rata over the full tax year, these strategies can be helpful in reducing previous underpayments of estimated tax.

Spend FSA funds. Generally, any amounts remaining in a tax-favored flexible spending account (FSA) at year-end or the end of the plan's grace period, if available, are forfeited. In lieu of the optional grace period, a health FSA may allow employees to carry over up to \$500 to the next year. If you have money in an FSA, you'll want to know what the timing rules are for your plan and use up your money within the time allotted.

Make an HSA contribution. You may make up to a full year's worth of deductible health savings account (HSA) contributions for 2015 at any time before your tax return's due date (not considering extensions), provided you meet the contribution eligibility rules. Among other requirements, you must have coverage under a qualifying high deductible health plan. The maximum deductible HSA contribution for 2015 is \$3,350 with self-only coverage or \$6,650 with family coverage. If you are 55 or older and not enrolled in Medicare, you may make an additional \$1,000 contribution.

Take required minimum distributions. Don't overlook any minimum distributions you are required to take from traditional IRAs and employer retirement plans for 2015. Generally, you must start taking annual required minimum distributions (RMDs) after you reach age 70½. Your first RMD generally will be due by April 1 of the year after the year you reach age 70½, and another RMD will be due by December 31 of that same year. RMDs for subsequent

years must be taken by year-end. (An employer's retirement plan may allow non-5% owners who are still employed to delay distributions until after they retire from the company.) The additional excise tax for failure to take an RMD is steep: 50% of the amount you should have withdrawn but didn't.

Deductions and credits

Because many deductions, credits, and other tax benefits have AGI limits, deductions that are allowed in arriving at your AGI (called "above-the-line deductions") can be particularly valuable. Among others, above-the-line deductions include:

- ▶ Alimony paid
- ▶ Deductible IRA contributions
- ▶ Student loan interest
- ▶ Job-related moving expenses
- ▶ HSA contributions
- ▶ Self-employment tax deduction
- ▶ Self-employed health insurance costs
- ▶ Self-employed SEP, SIMPLE, and qualified retirement plan contributions
- ▶ Penalty on early withdrawal of savings



You may claim any above-the-line deductions you qualify for *in addition to* either a standard deduction (a set amount based on filing status) or itemized deductions (specified actual expenses). You'll want to itemize if it produces a larger deduction.

Earlier, you read about some strategies for maximizing deductions for medical expenses, miscellaneous expenses, and state and local taxes. Below are some other ideas for making the most of deduction opportunities.

Deduct home equity interest. Interest paid on a home equity loan or line of credit is potentially deductible regardless of how you use the loan proceeds. The debt must be secured by your primary or second residence and can't exceed \$100,000. To gain an interest deduction, you might consider borrowing against your home equity to finance a major purchase, such as a car you'll use for personal purposes. Similarly, consider paying off existing consumer debt with the proceeds of a home equity loan. But exercise caution, since your home would act as security for the loan.

Don't overlook mortgage points. You may deduct mortgage "points" (prepaid interest) in full in the year you purchase or build your main home. Alternatively, you may spread out the deduction of purchase points over the life of the loan.

If you pay points when refinancing your mortgage, you may deduct them ratably over the life of the loan. If the refinancing is for home improvements, points paid from separate funds are currently deductible.

Look into the home office deduction.

If you work from an office in your home, you might consider claiming the home office deduction. It can be figured using a standard rate of \$5 per square foot (maximum of 300 square feet) or by using a prorated portion of your actual home-related expenses. With the standard rate, you don't have to keep records of amounts paid for utilities, trash and snow removal, and similar home-related expenses. This can simplify recordkeeping but may or may not produce the largest deduction. Either way, you must use the office space exclusively and regularly for business and meet other tax law requirements.

Deduct student loan interest. The above-the-line deduction for student loan interest (up to \$2,500 annually) is available not only for interest paid on your (and your spouse's) qualified education loans but also for interest on any loans you take to finance your dependent child's higher education.

You may continue to claim the interest deduction even after your child is no longer your dependent. If you are married, you must file jointly to claim the deduction. It phases out with joint AGI between \$130,000 and \$160,000 (\$65,000 and \$80,000 for single filers).

Weigh the investment interest deduction. You may deduct interest paid on funds borrowed to buy or carry taxable investments, such as margin loan interest, up to the amount of your net investment income. Excess interest is carried over for deduction in future years. However, any net capital gain or qualified dividend income you choose to include in your net investment income for purposes of calculating the investment interest deduction isn't eligible for the favorable capital gain/dividend tax rates and instead will be taxed as ordinary income. A tax projection that takes into account your specific situation can show which route would be best for you.

Tracking Down Interest Deductions

Type of debt	Interest deductible?	Debt ceiling	Interest ceiling
Personal/consumer	No	—	—
Home mortgage	Yes ¹	\$1 million	—
Home equity loan/line of credit	Yes ¹	\$100,000	—
Investment (taxable)	Yes ¹	—	Limited to net investment income
Investment (tax-exempt)	No	—	—
Student loan	Yes ²	—	\$2,500 per year

¹ Itemized deduction

² Above-the-line deduction

Various additional requirements apply.



Donate appreciated securities. Instead of making a cash contribution to charity, consider donating appreciated securities you've held more than one year. You generally may claim a charitable contribution deduction for the securities' full fair market value (subject to certain limitations and restrictions). You also avoid the capital gains tax that would apply if you sold the securities first and then donated the sale proceeds.

Look into tax credits. While deductions lower taxable income, credits offset income tax, dollar for dollar. In 2015, you may be able to claim:

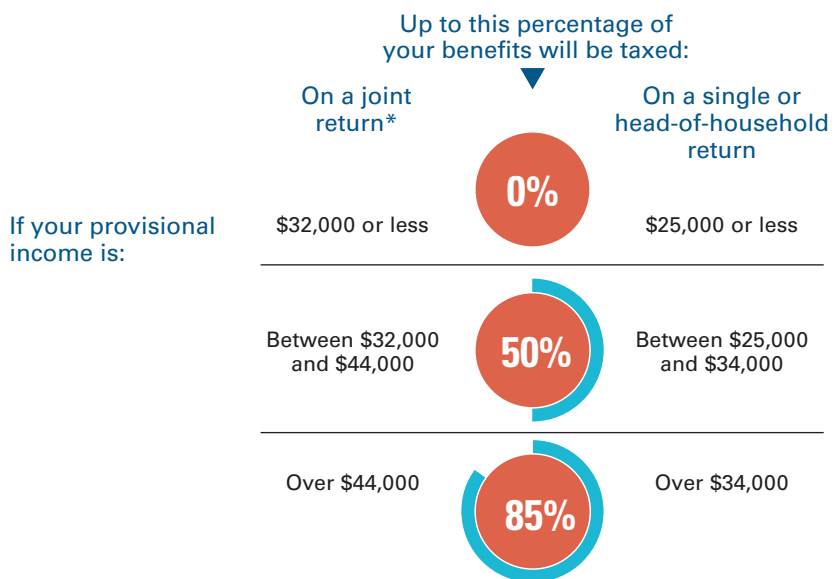
- ▶ A **child tax credit** of up to \$1,000 for each qualifying child who is under age 17. (Income limitations apply.)
- ▶ An **adoption tax credit** for up to \$13,400 in qualified adoption expenses. (Income limitations apply.)
- ▶ A **household and dependent care credit** for the payment of child care expenses so you (and your spouse) can work. Your child must be under age 13. Up to \$3,000 in expenses (\$6,000 for two or more children) can qualify for the credit, and the minimum credit rate is 20%. This credit is also available for the costs of a disabled spouse's or a disabled dependent's care (and related household services), again assuming the care enables the taxpayer to be gainfully employed.
- ▶ A **residential energy-efficient property credit** for up to 30% of the expenses paid for solar electric, solar hot water, geothermal heat pump, small wind energy, and fuel cell property. The credit covers both equipment and installation expenses. (Restrictions apply.)
- ▶ An **American Opportunity credit** (up to \$2,500 per student) or a **Lifetime Learning credit** (up to \$2,000 per tax return) for the payment of qualified higher education expenses for yourself, your spouse, or your dependents. Various requirements and income restrictions apply.

Social Security taxation

Retired taxpayers are sometimes caught off guard when they learn their Social Security benefits aren't necessarily tax free. When "provisional income" — modified AGI (including tax-exempt municipal bond interest) plus half of the Social Security benefits — exceeds

certain levels, a portion of the Social Security benefit must be included in income for tax purposes. If you are collecting Social Security, look carefully at your year-end transactions to determine if realizing additional income in 2015 would increase the amount of your benefits that will be subject to income tax.

Social Security Taxation



* The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.



Your Business Taxes

You want your business to be profitable. But you don't want to be burdened with taxes that could be reduced or even eliminated through tax planning. You'll find some helpful suggestions for lowering taxes on business income in this section of the guide.

Timing it right

You read about the importance of timing year-end transactions to your tax advantage in the section on personal tax planning. Timing can also be an important factor in your business tax planning.

To lower this year's taxable income, look for ways to defer income so that it won't be recognized until 2016 and to accelerate deductible expenses into 2015. Along the same line, if you anticipate a significantly higher tax rate next year, you might consider strategies to accelerate business income and defer deductible expenses, even though it will mean paying taxes sooner. Be sure you've factored in the time value of money and your business's cash flow needs when you are making timing-related decisions.

Also be sure to consider your business's tax accounting method. A business that uses the cash method reports income in the tax year the income is actually or constructively received and generally deducts expenses in the year payments are disbursed. In contrast, an accrual-method business reports income in the year all events have occurred that determine the business's right to receive the income and the amount can be determined with reasonable accuracy. Deductions are taken when all events have occurred creating the liability and the amounts can be determined with reasonable accuracy. Also, economic performance must have occurred.

TIMING MOVES

To shift taxable income into 2016:

- ▶ Delay billing notices so that payment won't be received until early next year (cash-method businesses).
- ▶ Delay product shipments or hold off on providing services until the beginning of the 2016 tax year (accrual-method businesses).

To accelerate deductible expenses into 2015:

- ▶ Purchase supplies before year-end if those expenses would be incurred in 2016 anyway.
- ▶ Consider having equipment or vehicle repairs done before year-end.
- ▶ Increase business use of a car you drive for both business and

personal purposes to boost your total write-off for the vehicle.

- ▶ Look at deducting employee bonuses you plan to pay within the first 2½ months of 2016 (accrual-method businesses).*

* This strategy generally isn't available for bonuses paid to employees who own a greater-than-50% interest in the business, and other restrictions may apply.



Fixed asset strategies

Depreciation deductions can be significant, particularly for capital-intensive businesses. It's a good idea to review your year-to-date fixed asset purchases to estimate how much they might generate in terms of deductions.

Monitor late-year purchases.

Generally, a full half-year's depreciation deduction is available for machinery, equipment, office furnishings, and other non-real-estate property purchased and placed in service at any time during the tax year. However, if more than 40% of the year's purchases are placed in service during the last three months of the year, depreciation for all the assets has to be calculated using a "mid-quarter convention." If the mid-quarter convention is triggered, depreciation deductions for late-year purchases would be smaller.

Utilize expensing opportunities.

Consider buying equipment or other assets that can qualify for the Section 179 election to currently deduct ("expense") the cost rather than claim depreciation over time. Although the \$25,000 Section 179 limit is much lower for 2015 than it has been recently, the election still can be a tax saver. And it's always possible that Congress could act late in the year to restore a higher limit.

Note that the \$25,000 limit is reduced dollar for dollar as the year's purchases of qualifying assets rise from \$200,000 to \$225,000. The deductible amount is

further limited to the amount of your taxable income from active trades or businesses.

MACRS Depreciation Asset Classes



3-year

Tractor units for over-the-road use



5-year

Automobiles, trucks, computers and peripheral equipment



7-year

Office furniture and fixtures, farm machinery and equipment



10-year

Vessels, barges, tugs



15-year

Certain land improvements



20-year

Farm buildings (other than certain single-purpose structures)



27.5-year

Residential rental property — apartment buildings, single-family rental properties



39-year

Nonresidential real property—office buildings, stores, warehouses

The lists of property included in each asset class are not all-inclusive.

Also see if your business qualifies to expense the cost of relatively inexpensive asset purchases using the tax law's "de minimis safe harbor election." With this election, you may expense small purchases costing no more than \$5,000 or \$500 per item (or per invoice) provided you meet certain requirements. The higher \$5,000 threshold is available to businesses that have an "applicable financial statement" (e.g., a certified audited financial statement, accompanied by an independent CPA's report).

Another safe harbor provision allows qualifying small businesses to make an election to deduct the costs of work performed on a building with an unadjusted basis of no more than \$1 million. To qualify, your business must have average annual gross receipts of no more than \$10 million. Additionally, the total amount paid during the taxable year for the building's repairs, maintenance,

and/or improvements may not exceed the lesser of \$10,000 or 2% of the unadjusted basis of the eligible building property. The building may be owned or leased. Additional requirements apply.

Business losses

You're not in business to generate losses. However, if your business does incur a loss, you can use it to lower your taxes. Check this list of possible loss deductions:

- ▶ Business bad debts
- ▶ Casualty and theft losses (including natural disaster losses)
- ▶ Capital losses
- ▶ Losses on the sale of business assets

Use NOLs to your advantage. Your business has a net operating loss (NOL) when deductions exceed income for the tax year. An NOL generally may be carried back two years. Typically, you'd

want to carry back as much of your NOL as possible to secure a refund of income taxes paid, but you can choose not to. Any NOL that isn't carried back may be carried forward to offset future taxable income for as long as 20 years.

Check basis. If you are an S corporation shareholder, your share of any loss would be passed through to you and could be used to offset other income reported on your personal return. To deduct a loss, however, you must have sufficient "basis" in your S corporation stock and any outstanding loans you made to the corporation. If you anticipate your firm will show a loss for 2015, find out if you'll have sufficient basis to deduct it. If not, consider loaning the company money before year-end to increase your basis and enable you to deduct the loss on your 2015 return.

More planning tips

Any number of other strategies can be useful in lowering the tax burden on business income.

Maximize deduction for production activities. If your business is engaged in domestic manufacturing, construction, engineering, or architectural activities, it may be entitled to deduct a percentage of its production activity income. The deduction equals 9% of *the lower of* (1) "qualified production activities income" or (2) taxable income without regard to the deduction. The deduction is capped at 50% of W-2 wages allocable to domestic production gross receipts. If it appears that this 50%-of-wages restriction will limit your 2015 deduction, you might consider paying year-end bonuses to company owners whose compensation can be allocated to domestic production gross receipts.



Deduct start-up expenditures. A new venture may elect to deduct up to \$5,000 of business start-up expenditures, such as advertising and travel expenses paid before the new business began operating. (Any remaining costs are deducted ratably over a 180-month period.) To claim the deduction in 2015, a new business must be up and running by year-end.

Use an accountable plan. Following the IRS's accountable plan rules for reimbursing employees for their travel, entertainment, and other business expenses can save payroll taxes. With an accountable plan, employees provide their employer with an adequate accounting of their business-related expenses and return any excess amounts within a reasonable period. Amounts reimbursed under an accountable plan are not included in employees' wages.

Health care reform

Although the Affordable Care Act has been in place for several years, 2015 is the first year the law's employer shared responsibility provisions and the related information reporting requirements will apply. If your business is large enough to be affected, you must offer minimum essential health care coverage that is "affordable" and that provides "minimum value" to your full-time employees (and their dependents) or potentially be required to make a shared responsibility payment to the IRS.

Generally, these rules apply to employers that had an average of at least 50 full-time employees (including full-time equivalents, or FTEs) in the previous year. However, for 2015, employers with fewer than 100 full-time employees (including FTEs) in 2014 will not be

responsible for potential shared responsibility payments if they meet certain conditions. Even if your business is eligible for this transition relief, it will still be required to complete the information reporting for 2015 if it had an average of at least 50 full-time employees (including FTEs) during 2014.

2015 Health Care Information Reporting

Form:
1095-C

Employer Provided Health Insurance Offer and Coverage

Provided by:

Employers with an average of at least 50 full-time employees (including FTEs) in 2014

Provided to:

Full-time employees

Filed with:

The IRS (along with a transmittal Form 1094-C)

Reports:

Health insurance coverage offered or that no offer of coverage was made; employees who enrolled in minimum essential coverage; certain other information





Investigate small employer credit.

For 2015, eligible small employers may be entitled to a tax credit of up to 50% of their contribution toward employee health coverage. Very generally, an eligible small employer has:

- ▶ No more than 25 FTEs during its tax year
- ▶ Employees who have average annual wages of no more than \$51,600 (for 2015)
- ▶ A qualifying arrangement in effect that requires the employer to contribute at least 50% of the premiums

Various other detailed requirements apply.

Retirement plans

As an employer, you can lower your business taxes — and help accumulate funds for your own retirement — by maximizing contributions to a tax-favored retirement plan. The table shows the 2015 contribution and deduction limits for various types of plans.

Comparing Retirement Plans

	401(k)	Profit Sharing	Simplified Employee Pension (SEP)	SIMPLE IRA
Employee contributions allowed?	Yes — see page 2 for 2015 deferral limits	No	No (except for certain plans established before 1997)	Yes — see page 2 for 2015 deferral limits
Employer contribution required?	No — however, employer contributions are allowed	Yes — contributions can be discretionary	Yes — discretionary contributions	Yes — must match employee deferrals up to 3% of pay or contribute 2% of pay for all eligible employees
Maximum annual contribution	Smaller of \$53,000 or 100% of participant's compensation	Same as 401(k)	Smaller of \$53,000 or 25% of participant's compensation	Employee deferrals plus required employer contribution
Maximum deduction	25% of all participants' compensation plus employee deferrals	25% of all participants' compensation	Same as profit sharing plan	Same as maximum contribution

Qualifying compensation is generally limited to \$265,000 in 2015. Calculating the contribution limit for a self-employed individual's profit sharing contribution involves a special computation. SIMPLE IRAs are available only to small employers.

Tips for the self-employed

Self-employed individuals generally have to pay self-employment (SE) taxes — the counterpart of the Social Security and Medicare (FICA) taxes paid by employees and their employers. If you're self-employed, SE taxes can represent a significant expense.

Estimate SE taxes. In 2015, the 12.4% Social Security part of the tax applies to self-employment earnings of up to \$118,500. The 2.9% Medicare tax applies to all of your self-employment income. Plus, you'll owe an additional 0.9% Medicare tax on earnings over \$200,000 (\$250,000 of combined self-employment income on a joint return; \$125,000 if married filing separately). You may deduct half of your SE taxes (other than the additional 0.9% Medicare tax) as an above-the-line deduction on your personal return.

Deduct health care premiums. As a self-employed individual, you may deduct 100% of health insurance costs paid for yourself, your spouse, your dependents, and your children younger than 27 at year-end. The deduction can't be for more than your earned income from the trade or business for which you established the health coverage. (Other requirements apply.) Since you claim the deduction as an adjustment to gross income, rather than as an itemized deduction, it may help you qualify for other tax benefits that are subject to AGI-based limits.

Hire your child. Paying your child for doing legitimate work for your business can be a tax saver. Reasonable wages



paid to your child are deductible as a business expense. The income will be taxed to your child, but the standard deduction can shield as much as \$6,300 from tax (in 2015). Any earnings over that amount will be taxed at your child's rate — which is probably much lower than yours. Wages you pay your child will be exempt from FICA taxes until your child turns 18, assuming your business is unincorporated.

Tax credits

There are several tax credits available to eligible businesses, including the:

- ▶ **Investment credit** for 10% (or more) of the costs of (1) qualified rehabilitation of a building first placed in service before 1936 and certified historic structures (regardless of when placed in service) or (2) installation of solar, geothermal, fuel cell, microturbine, small wind energy, or combined heat and power system property
- ▶ **Disabled access credit** for 50% of eligible access expenditures greater than \$250 and not more than \$10,250 made by an eligible small business
- ▶ **FICA tip credit** for a food and beverage establishment's FICA tax obligation attributable to employee tips received in excess of tips treated as wages for purposes of satisfying minimum wage requirements (whether or not the tips are reported)
- ▶ **Small employer pension start-up credit** for 50% of administrative and retirement-related education expenses ("qualified start-up costs") for the first three plan years, up to a maximum credit of \$500 a year
- ▶ **Employer provided child care credit** for 25% of expenses to buy, build, rehabilitate, or expand property that will be used as part of an employer's child care facility plus 10% of the amount paid under a contract to provide child care resource and referral services to employees, up to a maximum credit of \$150,000 a year



Corporate tax rates

For your reference, the table shows the federal corporate income-tax rates that apply to a regular C corporation (other than a qualified personal service corporation).

If you own a closely held C corporation, consider having a tax projection done before year-end to help you determine whether you should look at additional ways to reduce the corporation's taxable income, such as paying bonuses or making a tax-deductible contribution to a profit sharing plan. A profit sharing plan contribution can be made as late as the due date of the corporation's tax return, including extensions, assuming the plan is already in place or is adopted by year-end.

Consider AMT. A larger corporation should also consider its potential alternative minimum tax (AMT) exposure. When it applies, the corporate AMT rate is 20%, and the exemption amount is \$40,000 (subject to an income-based phaseout with alternative minimum taxable income between \$150,000 and \$310,000).

Small corporations that meet a gross receipts test are exempt from AMT. To qualify, your corporation's average

annual gross receipts for all three-tax-year periods beginning after 1993 and ending before the current tax year generally can't exceed \$7.5 million. (There's a lower \$5 million threshold for the first three-tax-year period taken into account in the test.) If a 2015 projection shows that you are about to run up against the gross receipts threshold, you might consider deferring income until next year to preserve your status as a small corporation that's exempt from the AMT.

Corporate Tax Rates

If taxable income is over	But not over	Your tax is	Of the amount over
\$0	\$50,000	15%	\$0
\$50,000	\$75,000	\$7,500 + 25%	\$50,000
\$75,000	\$100,000	\$13,750 + 34%	\$75,000
\$100,000	\$335,000	\$22,250 + 39%	\$100,000
\$335,000	\$10,000,000	\$113,900 + 34%	\$335,000
\$10,000,000	\$15,000,000	\$3,400,000 + 35%	\$10,000,000
\$15,000,000	\$18,333,333	\$5,150,000 + 38%	\$15,000,000
\$18,333,333		35%	\$0

Qualified personal service corporations pay a flat 35% tax.

**ACT
SOON**

Now that you've reached the end of this guide, we hope you've identified potential strategies for lowering your taxes and that you'll contact us soon. As skilled

professionals, we have the experience, knowledge, and expertise to help you with your planning needs. For more information on any of our services, please call.

The general information provided in this publication is not intended to be nor should it be treated as tax, legal, investment, accounting, or other professional advice. Before making any decision or taking any action, you should consult a qualified professional advisor who has been provided with all pertinent facts relevant to your situation.

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