2015-2016 TAX PLANNING GUIDE

YEAR-ROUND STRATEGIES TO MAKE THE TAX LAWS WORK FOR YOU

Be ready to revise your individual or business tax plan quickly in 2015

When it comes to tax law, "uncertain" remains the watchword. Given the recent shift in power in Congress and the fact that the President is now in his last two years of office, there's much talk of comprehensive, long-term tax reform — and speculation about its likelihood.

Then there are the tax "extenders." Last December, in a dramatic rush to beat the clock, the Tax Increase Prevention Act of 2014 was signed into law. This measure retroactively extended a variety of tax relief provisions that had expired at the end of 2013, including some valuable breaks for businesses. Unfortunately, the extensions were generally only through Dec. 31, 2014. Congress must take further action to revive the extenders for 2015 — or to make them permanent, perhaps as part of tax reform legislation.

Regardless of when — or if — either of those scenarios becomes reality, tax planning this year will be challenging for both individuals and businesses. It's possible we could reach the end of 2015 before knowing whether there will be comprehensive tax reform or the extender provisions will apply for the 2015 tax year. So be ready to revise your tax plan quickly. The more you know about the areas subject to change and possible tax-reduction strategies, the easier it will be to take action should the need arise.

This guide covers many of the tax issues individual and business taxpayers will encounter in 2015. However, there isn't space to cover every possible tax-savings strategy here. So please contact your tax advisor to learn about specific strategies to address your situation.

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Timing income and deductions to your tax advantage

Usually it makes tax sense to accelerate as many deductible expenses into the current tax year as you can and defer income to the next year to the extent possible. This can reduce current-year tax, deferring tax to future years. In some cases it may even permanently lock in tax savings. But there are also situations where this strategy could be costly. To time income and deductions to your tax advantage, you must consider the potential impact on your particular situation.

The alternative minimum tax

When timing income and deductions, first consider the AMT — a separate tax system that limits some deductions and disallows others, such as:

- State and local income tax deductions,
- Property tax deductions, and
- Miscellaneous itemized deductions subject to the 2% of adjusted gross income (AGI) floor, including investment advisory fees and unreimbursed employee business expenses.

It also treats certain income items differently, such as incentive stock option exercises. You must pay the AMT if your AMT liability exceeds your regular tax liability. See Chart 6 on page 16 for AMT rates and exemptions, and work with your tax advisor to project whether you could be subject to the AMT this year or next. You may be able to time income and deductions to avoid the AMT, or at least reduce its impact.

Home-related breaks

Consider both deductions and exclusions:

Property tax deduction. Before paying your bill early to accelerate this itemized deduction into 2015, review your AMT situation. If you're subject to the AMT this year, you'll lose the benefit of the deduction for the prepayment.

Mortgage interest deduction. You generally can deduct interest on up to a combined total of $1 million of mortgage debt incurred to purchase, build or improve your principal residence and a second residence. Points paid related to your *principal* residence also may be deductible.

Home equity debt interest deduction. Interest on home equity debt used for any purpose (debt limit of $100,000) may be deductible. So consider using a home equity loan or line of credit to pay off credit cards or auto loans, for which interest isn't deductible and rates may be higher. ***Warning:*** If home equity debt isn't used for home improvements, the interest isn't deductible for AMT purposes.

Home office deduction. If your use of a home office is for your employer's benefit and it's the only use of the space, you generally can deduct a portion of your mortgage interest, property taxes, insurance, utilities and certain other expenses, and the depreciation allocable to the space. Or you may be able to use the simplified option for claiming the deduction. (Contact your tax advisor for details.) For employees, home office expenses are a miscellaneous itemized deduction, and you'll enjoy a tax benefit only if these expenses plus your other miscellaneous itemized expenses exceed 2% of your AGI. (If you're self-employed, see page 11.)

Rental income exclusion. If you rent out all or a portion of your principal residence or second home for less than 15 days, you don't have to report the income. But expenses directly associated with the rental, such as advertising and cleaning, won't be deductible.

Home sale gain exclusion. When you sell your principal residence, you can exclude up to $250,000 ($500,000 for married couples filing jointly) of gain if you meet certain tests. ***Warning:*** Gain that's allocable to a period of "nonqualified" use generally isn't excludable.

Home sale loss deduction. Losses on the sale of a principal residence aren't deductible. But if part of your home is rented out or used exclusively for your business, the loss attributable to that portion may be deductible.

Debt forgiveness exclusion. This break for homeowners who received debt forgiveness in a foreclosure, short sale or mortgage workout for a principal residence expired Dec. 31, 2014, but Congress might extend it. Check with your tax advisor for the latest information.

Charitable donations

Donations to qualified charities are generally fully deductible for both regular tax and AMT purposes, and they may be the easiest deductible expense to time to your tax advantage. For large donations, discuss with your tax advisor which assets to give and the best ways to give them. For example:

Appreciated stock. Appreciated publicly traded stock you've held more than one year can make one of the best charitable gifts. Why? Because you can deduct the current fair market value and avoid the capital gains tax you'd pay if you sold the property. ***Warning:*** Donations of such property are subject to tighter deduction limits. Excess contributions can be carried forward for up to five years.

CRTs. For a given term, a charitable remainder trust pays an amount to you annually (some of which generally is taxable). At the term's end, the CRT's remaining assets pass to one or more charities. When you fund the CRT, you receive an income tax deduction. If you contribute appreciated assets, you also can minimize and defer capital gains tax. You can name someone other than yourself as income beneficiary or fund the CRT at your death, but the tax consequences will be different.

Sales tax deduction

The break allowing you to take an itemized deduction for state and local *sales* taxes in lieu of state and local *income* taxes was available for 2014 but, as of this writing, hasn't been extended for 2015. (Check with your tax advisor for the latest information.)

Limit on itemized deductions

If your AGI exceeds the applicable threshold, certain deductions are reduced by 3% of the AGI amount that exceeds the threshold (not to exceed 80% of otherwise allowable deductions). For 2015, the thresholds are $258,250 (single), $284,050 (head of household), $309,900 (married filing jointly) and $154,950 (married filing separately).

If your AGI is close to the threshold, AGI-reduction strategies (such as making retirement plan and HSA contributions) may allow you to stay under it. If that's not possible, consider the reduced tax benefit of the affected deductions before implementing strategies to accelerate or defer deductible expenses. The limitation doesn't apply, however, to deductions for medical expenses, investment interest, or casualty, theft or wagering losses.

Tax-advantaged saving for health care

Some of your health care expenses may be deductible (see Case Study I), but you also may be able to save taxes by contributing to one of the following accounts:

HSA. If you're covered by qualified high-deductible health insurance, you can contribute pretax income to an employer-sponsored Health Savings Account — or make deductible contributions to an HSA you set up yourself — up to $3,350 for self-only coverage and $6,650 for family coverage for 2015. Plus, if you're age 55 or older, you may contribute an additional $1,000. HSAs can bear interest or be invested, growing tax-deferred similar to an IRA. Withdrawals for qualified medical expenses are tax-free, and you can carry over a balance from year to year.

FSA. You can redirect pretax income to an employer-sponsored Flexible Spending Account up to an employer-determined limit — not to exceed $2,550 in 2015. The plan pays or reimburses you for qualified medical expenses. What you don't use by the plan year's end, you generally lose — though your plan might allow you to roll over up to $500 to the next year. Or it might give you a 2½-month grace period to incur expenses to use up the previous year's contribution. If you have an HSA, your FSA is limited to funding certain "permitted" expenses.

Additional 0.9% Medicare tax

If you're thinking about timing *income*, consider the additional 0.9% Medicare tax. This tax applies to FICA wages and net self-employment income exceeding $200,000 per year ($250,000 for joint filers and $125,000 for separate filers). You may be able to implement income timing strategies to avoid or minimize the tax, such as deferring or accelerating a bonus or a stock option exercise.

Employers must withhold the additional tax beginning in the pay period when wages exceed $200,000 for the calendar year — without regard to an employee's filing status or income from other sources. So your employer might withhold the tax even if you aren't liable for it — or it might *not* withhold the tax even though you *are* liable for it.

If you *don't* owe the tax but your employer *is* withholding it, you can claim a credit on your 2015 income tax return. If you *do* owe the tax but your employer *isn't* withholding it, consider filing a W-4 form to request additional *income* tax withholding, which can be used to cover the shortfall and avoid interest and penalties. ❖

Case Study I

Bunch medical expenses to enjoy a deduction

Kevin and Sarah incurred what they thought were a lot of medical expenses in 2014, so when they met with a tax advisor about filing their return, they were surprised to learn that they couldn't deduct any of them. The advisor explained that medical expenses can be deducted only to the extent that they exceed 10% of adjusted gross income (7.5% for taxpayers age 65 and older). The couple's 2014 expenses didn't exceed that floor.

The advisor suggested that, for 2015 and 2016, Kevin and Sarah consider "bunching" nonurgent medical procedures (and any other services and purchases whose timing they can control without negatively affecting their health) into one year to exceed the 10% floor. Eligible expenses may include:

- Health insurance premiums,
- Long-term care insurance premiums (limits apply),
- Medical and dental services,
- Prescription drugs, and
- Mileage (23 cents per mile driven for health care purposes).

Expenses that are reimbursable by insurance or paid through a tax-advantaged account aren't deductible.

DID YOU KNOW?

If you make a profit on the sale of your home, up to $250,000 of it might be tax-free — up to $500,000 if you're a joint filer.

Family and education tax breaks make raising kids less costly

Raising children and helping them pursue their educational goals — or pursuing your own — can be highly rewarding. But it also can be expensive. Fortunately, a variety of tax breaks can offset some of the costs, helping you keep your family financially secure and their future bright.

Child and adoption credits

Tax credits reduce your tax bill dollar-for-dollar, so make sure you're taking every credit you're entitled to. For each child under age 17 at the end of the year, you may be able to claim a $1,000 child credit. If you adopt in 2015, you may qualify for an adoption credit — or for an income exclusion under an employer adoption assistance program. Both are up to $13,400 per eligible child. ***Warning:*** These credits phase out for higher-income taxpayers. (See Chart 1.)

Child care expenses

A couple of tax breaks can help you offset these costs:

Tax credit. For children under age 13 or other qualifying dependents, you may be eligible for a credit for a percentage of your dependent care expenses. Eligible expenses are limited to $3,000 for one dependent and $6,000 for two or more. Income-based limits reduce the credit percentage but don't phase it out altogether. (See Chart 1.)

FSA. You can contribute up to $5,000 pretax to an employer-sponsored child and dependent care Flexible Spending Account. The plan pays or reimburses you for these expenses. You can't use those same expenses to claim a tax credit.

IRAs for teens

IRAs can be perfect for teenagers because they likely will have many years to let their accounts grow tax-deferred or tax-free. The 2015 contribution limit is the lesser of $5,500 or 100% of earned income. A teen's *traditional* IRA contributions typically are deductible, but distributions will be taxed. *Roth* IRA contributions aren't deductible, but qualified distributions will be tax-free. Choosing a Roth IRA is typically a no-brainer if a teen doesn't earn income that exceeds the standard deduction ($6,300 for 2015 for single taxpayers), because he or she will likely gain no benefit from the ability to deduct a traditional IRA contribution. Even above that amount, the teen probably is taxed at a very low rate, so the Roth will typically still be the better answer.

If your children or grandchildren don't want to invest their hard-earned money, consider *giving* them up to the amount they're eligible to contribute. But keep the gift tax in mind. (See page 14.)

If they don't have earned income and you own a business, consider hiring them. As the business owner, you can deduct their pay, and other tax benefits may apply. ***Warning:*** The children must be paid in line with what you'd pay nonfamily employees for the same work.

CHART 1

Are you eligible for these 2015 tax breaks?

Tax break	Modified adjusted gross income phaseout range	
	Single filer	Joint filer
Child credit[1]	$ 75,000 – $ 95,000	$110,000 – $130,000
Adoption credit	$201,010 – $241,010	$201,010 – $241,010
Child or dependent care credit[2]	$ 15,000 – $ 43,000	$ 15,000 – $ 43,000
ESA contribution	$ 95,000 – $110,000	$190,000 – $220,000
American Opportunity credit	$ 80,000 – $ 90,000	$160,000 – $180,000
Lifetime Learning credit	$ 55,000 – $ 65,000	$110,000 – $130,000
Student loan interest deduction	$ 65,000 – $ 80,000	$130,000 – $160,000

[1] *Assumes one child. The phaseout end is higher for families with more than one eligible child.*

[2] *The phaseout is based on AGI rather than MAGI. The credit doesn't phase out altogether, but the minimum credit percentage of 20% applies to AGIs above $43,000.*

The "kiddie tax"

The "kiddie tax" applies to children under age 19 and to full-time students under age 24 (unless the students provide more than half of their own support from earned income). For children subject to the tax, any unearned income beyond $2,100 (for 2015) is taxed at their parents' marginal rate, if higher, rather than their own typically low rate. Keep this in mind before transferring income-generating assets to them.

529 plans

If you're saving for college, consider a Section 529 plan. You can choose a prepaid tuition program to secure current tuition rates or a tax-advantaged savings plan to fund college expenses:

- Although contributions aren't deductible for federal purposes, plan assets can grow tax-deferred. (Some states offer tax incentives in the form of deductions or credits.)
- Distributions used to pay qualified expenses (such as tuition, mandatory fees, books, equipment, supplies and, generally, room and board) are income-tax-free for federal purposes and typically for state purposes as well, thus making the tax deferral a permanent savings.
- The plans usually offer high contribution limits, and there are no income limits for contributing.
- There's generally no beneficiary age limit for contributions or distributions.
- You can control the account, even after the child is of legal age.
- You can make tax-free rollovers to another qualifying family member.
- The plans provide estate planning benefits: A special break for 529 plans allows you to front-load five years' worth of annual gift tax exclusions and make up to a $70,000 contribution (or $140,000 if you split the gift with your spouse).

The biggest downsides may be that your investment options — and when you can change them — are limited.

ESAs

Coverdell Education Savings Accounts are similar to 529 savings plans in that contributions aren't deductible for federal purposes, but plan assets can grow tax-deferred and distributions used to pay qualified education expenses are income-tax-free. One of the biggest ESA advantages is that tax-free distributions aren't limited to college expenses; they also can fund elementary and secondary school costs. ESAs are worth considering if you want to fund such expenses or would like to have direct control over how and where your contributions are invested.

But the $2,000 contribution limit is low, and it's phased out based on income. (See Chart 1.) Amounts left in an ESA when the beneficiary turns age 30 generally must be distributed within 30 days, and any earnings may be subject to tax and a 10% penalty.

Education credits and deductions

If you have children in college now, are currently in school yourself or are paying off student loans, you may be eligible for a credit or deduction:

American Opportunity credit. The tax break covers 100% of the first $2,000 of tuition and related expenses and 25% of the next $2,000 of expenses. The maximum credit, *per student*, is $2,500 per year for the first four years of postsecondary education. The credit is scheduled to be available through 2017.

Lifetime Learning credit. If you're paying postsecondary education expenses beyond the first four years, you may benefit from the Lifetime Learning credit (up to $2,000 *per tax return*).

Tuition and fees deduction. If you don't qualify for one of the credits, you might alternatively be eligible to *deduct* up to $4,000 of qualified higher education tuition and fees — but only if this break is extended for 2015. (Check with your tax advisor for the latest information.)

Student loan interest deduction. If you're paying off student loans, you may be able to deduct the interest. The limit is $2,500 *per tax return*.

Warning: Income-based phaseouts apply to these breaks (see Chart 1), and expenses paid with distributions from 529 plans or ESAs can't be used to claim them. If your income is too high for you to qualify for a credit, your child might be eligible. But if your dependent child claims the credit, you must forgo your dependency exemption for him or her (and the child can't take the exemption). ❖

WHAT'S NEW!

ABLE accounts offer a tax-advantaged way to fund disability expenses

Who's affected: People with disabilities and their families.

Key changes: The Achieving a Better Life Experience (ABLE) Act of 2014 offers a new type of tax-advantaged savings program for people who are disabled or blind. The act allows states to establish tax-exempt ABLE programs to help people with disabilities build accounts that can pay qualified disability expenses.

For federal purposes, tax treatment of these accounts will be similar to that of Section 529 college savings plans:

- Anyone can make contributions to ABLE accounts, but the contributions won't be deductible.
- Income earned by the accounts generally won't be taxed.
- Distributions, including portions attributable to investment earnings generated by the account, to an eligible individual for qualified expenses won't be taxable.

Qualified expenses are those related to the individual's disability, such as health, education, housing, transportation, employment training, assistive technology, personal support, and related services and expenses.

Planning tip: Contact your tax advisor for the latest information on the availability of ABLE accounts in your state.

DID YOU KNOW?

If you save for college in a 529 plan, the money can grow tax-deferred — tax-free if plan funds are used only for qualified education expenses.

Tax planning for your investments: What you need to know

Tax planning for investments demands careful thought. You must consider the tax consequences of your investments as you buy and sell, but not let tax concerns propel your investment decisions. Your investment goals, time horizon, risk tolerance and factors related to the investment itself also should come into play. Nevertheless, tax factors are important. Here's a look at what you need to know.

Capital gains tax and timing

Although time, not timing, is generally the key to long-term investment success, timing can have a dramatic impact on the tax consequences of investment activities. Your long-term capital gains rate might be as much as 20 percentage points lower than your ordinary-income rate. The long-term gains rate applies to investments held for more than 12 months. The applicable rate depends on your income level and the type of asset. See Chart 2.

Holding on to an investment until you've owned it more than a year may help substantially cut tax on any gain. Here are some other tax-saving strategies related to timing:

Use unrealized losses to absorb gains. To determine capital gains tax liability, realized capital gains are netted against any realized capital losses. Both long- and short-term gains and losses can offset one another. If you've cashed in some big gains during the year and want to reduce your 2015 tax liability, before year end look for unrealized losses in your portfolio and consider selling them to offset your gains.

Avoid wash sales. If you want to achieve a tax loss with minimal change in your portfolio's asset allocation, keep in mind the wash sale rule. It prevents you from taking a loss on a security if you buy a substantially identical security (or an option to buy such a security) within 30 days before or after you sell the security that created the loss. You can then recognize the loss only when you sell the replacement security.

Fortunately, there are ways to avoid triggering the wash sale rule and still achieve your goals. For example, you can immediately buy securities of a different company in the same industry or shares in a mutual fund that holds securities much like the ones you sold. Or, you can wait 31 days to repurchase the same security. Alternatively, before selling the security, you can purchase additional shares of that security equal to the number you want to sell at a loss, and then wait 31 days to sell the original portion.

Swap your bonds. With a bond swap, you sell a bond, take a loss and then immediately buy another bond of similar quality and duration from a different issuer. Generally, the wash sale rule doesn't apply because the bonds aren't considered substantially identical. Thus, you achieve a tax loss with virtually no change in economic position.

Mind your mutual funds. Mutual funds with high turnover rates can create income that's taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you more tax dollars because of the lower long-term rates.

Also pay attention to earnings reinvestments. Unless you or your investment advisor increases your basis accordingly, you may report more gain than required when you sell the fund. Since 2012, brokerage firms have been required to track (and report to the IRS) your cost basis in mutual funds acquired during the tax year.

Case Study II

Watch out for mutual fund capital gains distributions

Hector purchases 200 shares of an equity mutual fund on Dec. 1, 2015, at $100 per share, for a total investment of $20,000. The next week, the fund makes a capital gains distribution of $15 per share. Hector ends up with capital gains of $3,000, reportable on his 2015 return. It doesn't matter whether the actual value of the shares has increased or even decreased since Hector purchased them, or whether he reinvests the proceeds back into the same fund.

Why? The distribution itself is a taxable event. If capital gains distributions from the mutual fund are reinvested in the fund, the distribution itself doesn't change Hector's value in the fund. It simply increases the number of shares he owns, yet now at a lower per-share value.

DID YOU KNOW?

If you transfer appreciated assets to adult children in the 10% or 15% tax bracket, they can potentially sell the assets tax-free.

Finally, beware of buying equity mutual fund shares late in the year. Such funds often declare a large capital gains distribution at year end. If you own the shares on the distribution's record date, you'll be taxed on the full distribution amount even if it includes significant gains realized by the fund before you owned the shares. See Case Study II.

See if a loved one qualifies for the 0% rate. The 0% rate applies to long-term gain that would be taxed at 10% or 15% based on the taxpayer's ordinary-income rate. If you have adult children in one of these tax brackets, consider transferring appreciated assets to them so they can sell the assets and enjoy the 0% rate. This strategy can be even more powerful if you'd be subject to the 3.8% NIIT and/or the 20% long-term capital gains rate if you sold the assets.

Warning: If the child will be under age 24 on Dec. 31, first make sure he or she won't be subject to the "kiddie tax." (See page 5.) Also, consider any gift tax consequences. (See page 14.)

Loss carryovers

If net losses exceed net gains, you can deduct only $3,000 ($1,500 for married taxpayers filing separately) of the net losses per year against dividends or ordinary income (such as wages, self-employment and business income, and interest).

You can carry forward excess losses indefinitely. Loss carryovers can be a powerful tax-saving tool in future years if you have a large investment portfolio, real estate holdings or a closely held business that might generate substantial future capital gains.

Finally, remember that capital gains distributions from mutual funds can also absorb capital losses.

Beyond gains and losses

With some types of investments, you'll have more tax consequences to consider than just gains and losses:

Dividend-producing investments. Qualified dividends are taxed at the favorable long-term capital gains tax rate rather than at your higher ordinary-income tax rate.

CHART 2

What's the maximum capital gains tax rate?

Assets held	2015[1]
12 months or less (*short term*)	Taxpayer's ordinary-income tax rate
More than 12 months (*long term*)	
■ 39.6% ordinary-income tax bracket	20%
■ 25%, 28%, 33% or 35% ordinary-income tax bracket	15%
■ 10% or 15% ordinary-income tax bracket	0%
Some key exceptions	
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%

[1] In addition, the 3.8% NIIT applies to net investment income to the extent that modified adjusted gross income (MAGI) exceeds $200,000 (singles and heads of households), $250,000 (married filing jointly) or $125,000 (married filing separately).

Interest-producing investments. Interest income generally is taxed at ordinary-income rates. So stocks that pay qualified dividends may be more attractive tax-wise than other income investments, such as CDs and taxable bonds. But nontax issues must be considered as well, such as investment risk, rate of return, and diversification.

Bonds. These also produce interest income, but the tax treatment varies:

- Interest on U.S. government bonds is taxable on federal returns but exempt by law on state and local returns.
- Interest on state and local government bonds is excludable on federal returns. If the bonds were issued in your home state, interest also may be excludable on your state return.
- Tax-exempt interest from certain private-activity municipal bonds can trigger or increase the AMT (see page 2) in some situations.
- Corporate bond interest is fully taxable for federal and state purposes.
- Bonds (except U.S. savings bonds) with original issue discount build up "interest" as they rise toward maturity. You're generally considered to earn a portion of that interest annually — even though the bonds don't pay this interest annually — and you must pay tax on it.

Stock options. Before exercising (or postponing exercise of) options or selling stock purchased via an exercise, consult your tax advisor about the complicated rules that may trigger regular tax or AMT liability. He or she can help you plan accordingly.

The 3.8% NIIT

Taxpayers with modified adjusted gross income (MAGI) over $200,000 per year ($250,000 for joint filers and $125,000 for married filing separately) may owe the net investment income tax, in addition to other taxes already discussed here. The NIIT equals 3.8% of the lesser of your net investment income or the amount by which your MAGI exceeds the applicable threshold. Net investment income can include capital gains, dividends, interest and other investment-related income. The rules are somewhat complex, so consult your tax advisor for more information.

Many of the strategies that can help you save or defer income tax on your investments can also help you avoid or defer NIIT liability. And because the threshold for the NIIT is based on MAGI, strategies that reduce your MAGI — such as making retirement plan contributions (see page 12) — could also help you avoid or reduce NIIT liability. ❖

For an enviable financial statement, implement a robust tax plan

Running a profitable business these days isn't easy. You have to operate efficiently, market aggressively and respond swiftly to competitive and financial challenges. But even when you do all of that, taxes may drag down your bottom line more than they should. Don't let that happen. Take steps like these — and work with your tax advisor — to make your tax bill as small as possible.

Projecting income

Projecting your business's income for this year and next can allow you to time income and deductions to your advantage. It's generally — but not always — better to defer tax, so consider:

Deferring income to next year. If your business uses the cash method of accounting, you can defer billing for products or services. If you use the accrual method, you can delay shipping products or delivering services.

Accelerating deductible expenses into the current year. If you're a cash-basis taxpayer, you may make a state estimated tax payment by Dec. 31, so you can deduct it this year rather than next. But consider the alternative minimum tax (AMT) consequences first. Both cash- and accrual-basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when the credit card bill is paid.

Warning: Don't let tax considerations get in the way of sound business decisions. For example, the negative impact of these strategies on your cash flow may not be worth the potential tax benefit.

Taking the opposite approach. If it's likely you'll be in a higher tax bracket next year, accelerating income and deferring deductible expenses may save you more tax.

Depreciation

For assets with a useful life of more than one year, you generally must depreciate the cost over a period of years. In most cases, the Modified Accelerated Cost Recovery System (MACRS) will be preferable to other methods because you'll get larger deductions in the early years of an asset's life.

But if you make more than 40% of the year's asset purchases in the last quarter, you could be subject to the typically less favorable midquarter convention. Careful planning can help you maximize depreciation deductions in the year of purchase.

Other depreciation-related breaks and strategies may be available:

Section 179 expensing election. This allows you to deduct (rather than depreciate over a number of years) the cost of purchasing eligible new or used assets, such as equipment, furniture and off-the-shelf computer software. As of this writing, the expensing limit for 2015 is $25,000, and the break begins to phase out dollar-for-dollar when total asset acquisitions for the tax year exceed $200,000. You can claim the election only to offset net income, not to reduce it below zero to create an NOL. (See page 10.)

Warning: The expensing limit and phaseout threshold have dropped significantly from their 2014 levels. And the break allowing up to $250,000 of Sec. 179 expensing for qualified leasehold-improvement, restaurant

and retail-improvement property also expired Dec. 31, 2014. Congress may revive the enhanced Sec. 179 breaks. So check with your tax advisor for the latest information.

50% bonus depreciation. This additional first-year depreciation allowance expired Dec. 31, 2014, with a few exceptions. But Congress may revive bonus depreciation. Check with your tax advisor for the latest information.

Accelerated depreciation. The break allowing a shortened recovery period of 15 years — rather than 39 years — for qualified leasehold-improvement, restaurant and retail-improvement property expired Dec. 31, 2014. However, it might be revived. Check with your tax advisor for the latest information.

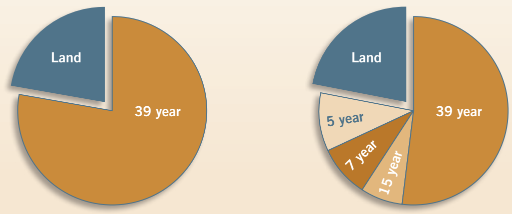
Tangible property repairs. A business that has made repairs to tangible property, such as buildings, machinery, equipment and vehicles, can expense those costs and take an immediate deduction. But costs incurred to acquire, produce or *improve* tangible property must be depreciated. Final IRS regulations released in late 2013 distinguish between repairs and improvements and include safe harbors for small businesses and routine maintenance. The final regs are complex and are still being interpreted, so contact your tax advisor for details.

Cost segregation study. If you've recently purchased or built a building or are remodeling existing space, consider a cost segregation study. It identifies property components that can be depreciated much faster, increasing your current deductions. Typical assets that qualify include decorative fixtures, security equipment, parking lots and landscaping. See Case Study III for an example.

Case Study III

Cost segregation study can accelerate depreciation

A manufacturing company spends $5 million to purchase land and a building. A hypothetical example of the potential difference in resulting depreciation "lives" *with* vs. *without* a cost segregation study might be the following:



Category	Depreciation without study	Depreciation with study
5 year:	No depreciation taken	$ 500,000
7 year:	No depreciation taken	$ 440,000
15 year:	No depreciation taken	$ 360,000
39 year:	$ 3,900,000	$ 2,600,000
Total depreciation	$ 3,900,000	$ 3,900,000
Land[1]	$ 1,100,000	$ 1,100,000
Total:	**$5,000,000**	**$5,000,000**

The accelerated depreciation provides tax savings now, and can be well worth the cost of performing the study. Every business and every building is different, however, and only a qualified team of professionals can help you evaluate whether your situation is a good candidate for such a study.

[1] *Nondepreciable*

Vehicle-related deductions

Business-related vehicle expenses can be deducted using the mileage-rate method (57.5 cents per mile driven in 2015) or the actual-cost method (total out-of-pocket expenses for fuel, insurance, repairs and other vehicle expenses, plus depreciation).

Purchases of *new or used* vehicles may be eligible for Sec. 179 expensing. However, many rules and limits apply. For example, the normal Sec. 179 expensing limit generally applies to vehicles weighing more than 14,000 pounds. Even when the normal Sec. 179 expensing limit is higher, a $25,000 limit applies to SUVs weighing more than 6,000 pounds.

Vehicles weighing 6,000 pounds or less are subject to the passenger automobile limits. For autos placed in service in 2015, the first-year depreciation limit is $3,160. The amount that may be deducted under the combination of MACRS depreciation and Sec. 179 for the first year is limited under the luxury auto rules.

In addition, if a vehicle is used for business and personal purposes, the associated expenses, including depreciation, must be allocated between deductible business use and nondeductible personal use. The depreciation limit is reduced if the business use is less than 100%. If business use is 50% or less, you can't use Sec. 179 expensing or the accelerated regular MACRS; you must use the straight-line method.

Manufacturers' deduction

The manufacturers' deduction, also called the "Section 199" or "domestic production activities" deduction, is 9% of the lesser of qualified production activities income or taxable income. The deduction is also limited to 50% of W-2 wages paid by the taxpayer that are allocable to domestic production gross receipts.

The deduction is available to traditional manufacturers and to businesses engaged in activities such as construction, engineering, architecture, computer software production and agricultural processing. It isn't allowed in determining net self-employment earnings and generally can't reduce net income below zero. But it can be used against the AMT.

DID YOU KNOW?

The "manufacturers' deduction" isn't just for manufacturers.

Employee benefits

Offering a variety of benefits not only can help you attract and retain the best employees, but also may save tax:

Qualified deferred compensation plans. These include pension, profit-sharing, SEP and 401(k) plans, as well as SIMPLEs. You take a tax deduction for your contributions to employees' accounts. (For information on the benefits to employees, see page 12.) Certain small employers may also be eligible for a credit when setting up a plan. (See page 10.)

HSAs and FSAs. If you provide employees with a qualified high-deductible health plan (HDHP), you can also offer them Health Savings Accounts. Regardless of the type of health insurance you provide, you can offer Flexible Spending Accounts for health care. (See page 3.) If you have employees who incur day care expenses, consider offering FSAs for child and dependent care. (See page 4.)

HRAs. A Health Reimbursement Account reimburses an employee for medical expenses up to a maximum dollar amount. Unlike an HSA, no HDHP is required. Unlike an FSA, any unused portion can be carried forward to the next year. But only the employer can contribute to an HRA.

Fringe benefits. Some fringe benefits — such as employee discounts, group term-life insurance (up to $50,000 annually per person), parking (up to $250 per month), mass transit / van pooling (up to only $130 per month, unless Congress revives transit benefit parity; check with your tax advisor for the latest information), and health insurance — aren't included in employee income. Yet the employer can still receive a deduction for the portion, if any, of the benefit it pays and typically avoid payroll tax as well.

WHAT'S NEW!

ACA play-or-pay penalty risk for large employers begins in 2015, but you may be eligible for an exemption

Who's affected: "Large" employers, which generally include those with at least 50 full-time employees or the equivalent, as defined by the Affordable Care Act (ACA). However, certain midsize employers may be eligible for an exemption in 2015.

Key changes: The play-or-pay provision goes into effect in 2015, and it imposes a penalty on large employers if just one full-time employee receives a premium tax credit. Under the ACA, premium tax credits are available to employees who enroll in a qualified health plan through a government-run Health Insurance Marketplace and meet certain income requirements — but only if:

- They don't have access to "minimum essential coverage" from their employer, or
- The employer coverage offered is "unaffordable" or doesn't provide "minimum value."

The IRS has issued detailed guidance on what these terms mean and how employers can determine whether they're a "large" employer and, if so, whether they're offering sufficient coverage to avoid the risk of penalties. For example, to avoid the risk of a penalty for failing to offer minimum essential coverage in 2015, large employers need to offer coverage to only 70% of full-time employees, down from 95% under earlier guidance. However, the regs call for the 95% minimum to go into effect in 2016.

Also, employers with 50 to 99 full-time employees or the equivalent can qualify for the exemption from the play-or-pay provision in 2015 if they meet certain requirements. For example, the employer must maintain the same health care coverage it offered as of Feb. 9, 2014. Even if employers qualify for the exemption, they still will be subject to the information reporting requirements that go into effect for large employers in 2015.

Planning tips: If your business could be subject to the penalties this year or next, review your workforce and coverage offerings. There may be changes you could make to avoid or minimize penalties. Or it may be cheaper to pay the penalties. But remember that penalties aren't deductible, and not offering health care coverage could make it harder to attract and retain the best employees. Finally, keep in mind that there could be more guidance or changes to the law. Check with your tax and health insurance advisors for the latest information.

NOLs

A net operating loss occurs when operating expenses and other deductions for the year exceed revenues. Generally, an NOL may be carried back two years to generate a refund. Any loss not absorbed is carried forward up to 20 years to offset income.

Carrying back an NOL may provide a needed influx of cash. But you can elect to forgo the carryback if carrying the entire loss forward may be more beneficial. This might be the case if you expect your income to increase substantially or tax rates to go up.

Tax credits

Tax credits reduce tax liability dollar-for-dollar, making them particularly valuable. Numerous credits are available, but two of the most valuable expired Dec. 31, 2014, and, as of this writing, have yet to be revived:

Research credit. When available, this credit (also commonly referred to as the "research and development" or "research and experimentation" credit) generally is equal to a portion of qualified research expenses.

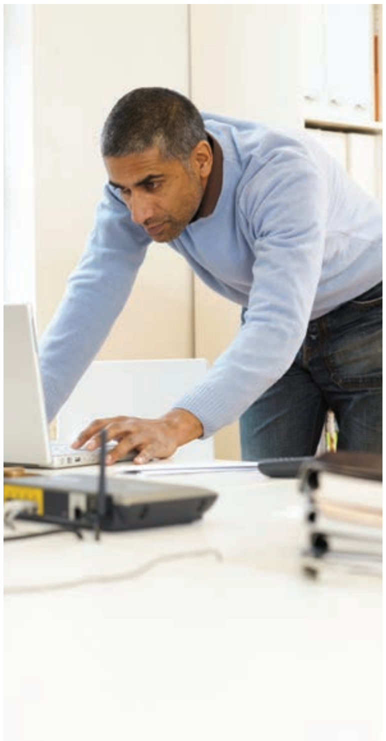
Work Opportunity credit. This credit was designed to encourage hiring from certain disadvantaged groups. Examples of groups that have qualified in the past include food stamp recipients, ex-felons and certain veterans.

Check with your tax advisor for the latest information on the status of these and other expired credits.

Here are two potentially valuable credits that haven't expired:

Retirement plan credit. Small employers (generally those with 100 or fewer employees) that create a retirement plan may be eligible for a $500 credit per year for three years. The credit is limited to 50% of qualified startup costs.

Small-business health care credit. The maximum credit is 50% of group health coverage premiums paid by the employer, provided it contributes at least 50% of the total premium or of a benchmark premium. For 2015, the full credit is available for employers with 10 or fewer full-time equivalent employees (FTEs)



and average annual wages of less than $25,800 per employee. Partial credits are available on a sliding scale to businesses with fewer than 25 FTEs and average annual wages of less than $51,600. ***Warning:*** To qualify for the credit, online enrollment in the Small Business Health Options Program (SHOP) generally is required beginning in 2015. In addition, the credit can now be taken for only two years, and they must be consecutive. (Credits taken before 2014 don't count, however.)

Business structure

Income taxation and owner liability are the main factors that differentiate one business structure from another. (See Chart 3 to compare the tax treatments.) Many businesses choose entities that combine flow-through taxation with limited liability, namely limited liability companies (LLCs) and S corporations.

The top individual rate is now higher (39.6%) than the top corporate rate (generally 35%), which might affect business structure decisions. For tax or other reasons, a structure change may be beneficial in certain situations, but there also may be unwelcome tax consequences.

Some tax differences between structures may provide tax planning opportunities, such as differences related to salary vs. distributions/dividends:

S corporations. Only income that shareholder-employees receive as salary is subject to employment taxes and, if applicable, the 0.9% Medicare tax. To reduce these taxes, you may want to keep your salary relatively — but not unreasonably — low and increase your distributions of company income, because distributions generally aren't taxed at the corporate level or subject to the 0.9% Medicare tax. (See page 3.)

C corporations. Only income that shareholder-employees receive as salary is subject to employment taxes and, if applicable, the 0.9% Medicare tax. Nevertheless, you may prefer to take more income as salary (which is deductible at the corporate level) as opposed to dividends (which aren't deductible at the corporate level, yet are still taxed at the shareholder level and could be subject to the 3.8% NIIT — see page 7) if the overall tax paid by both the corporation and you would be less.

Warning: The IRS is cracking down on misclassification of corporate payments to shareholder-employees, so tread carefully.

CHART 3

Income tax differences based on business structure

Flow-through entity or sole proprietorship	C corporation
One level of taxation: The business's income flows through to the owner(s).	Two levels of taxation: The business is taxed on income, and then shareholders are taxed on any dividends they receive.
Losses flow through to the owner(s).	Losses remain at the corporate level.
The top individual tax rate is 39.6%.	The top corporate tax rate is generally 35%[1], and the top rate on qualified dividends is 20%.

[1] See Chart 7 on page 16 for exceptions.

Sale or acquisition

Whether you're selling your business or acquiring another company, the tax consequences can have a major impact on the transaction's success or failure.

Consider installment sales, for example. A taxable sale might be structured as an installment sale if the buyer lacks sufficient cash or pays a contingent amount based on the business's performance. An installment sale also may make sense if the seller wishes to spread the gain over a number of years — which could be especially beneficial if it would allow the seller to stay under the thresholds for triggering the 3.8% NIIT or the 20% long-term capital gains rate. But an installment sale can backfire on the seller. For example:

- Depreciation recapture must be reported as gain in the year of sale, no matter how much cash the seller receives.
- If tax rates increase, the overall tax could wind up being more.

With a corporation, a key consideration is whether the deal should be structured as an asset sale or a stock sale. If a stock sale is chosen, another important question is whether it should be a tax-deferred transfer or a taxable sale.

Of course, tax consequences are only one of many important considerations when planning a sale or acquisition.

The self-employed

If you're self-employed, you can deduct 100% of health insurance costs for yourself, your spouse and your dependents. This above-the-line deduction is limited to your net self-employment income. You also can take an above-the-line deduction for contributions made to a retirement plan (see page 12) and, if you're eligible, an HSA (see page 3) for yourself.

You pay both the employee and employer portions of employment taxes on your self-employment income. The employer portion of the tax paid (6.2% for Social Security tax and 1.45% for Medicare tax) is deductible above the line.

And you may be able to deduct home office expenses from your self-employment income. (See page 2.) ❖

DID YOU KNOW?

Certain fringe benefits are tax-free to employees yet still deductible by the employer.

Build tax savings into your retirement planning

Whatever your age, you must plan carefully to help ensure your retirement dreams come true. This means building tax savings into your planning. For example, starting contributions early can make a big difference because of tax-deferred compounding. Choosing the right retirement plan for your situation is also important — is one that offers tax-*deferred* or tax-*free* savings better for you? Or perhaps you should contribute to both types of plans. Last, but certainly not least, avoiding early withdrawals and being tax-smart with required minimum distributions can be key to living your desired retirement lifestyle.

401(k)s and other employer plans

Contributing to a traditional employer-sponsored defined contribution plan is usually a good first step:

- Contributions are typically pretax, reducing your taxable income.
- Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions.
- Your employer may match some or all of your contributions pretax.

Chart 4 shows the 2015 employee contribution limits. Because of tax-deferred compounding, increasing your contributions sooner rather than later can have a significant impact on the size of your nest egg at retirement. Employees age 50 or older can also make "catch-up" contributions, however. So if you didn't contribute much when you were younger, this may allow you to partially make up for lost time.

If your employer offers a match, at *minimum* contribute the amount necessary to get the maximum match so you don't miss out on that "free" money.

CHART 4

Retirement plan contribution limits for 2015

	Regular contribution	Catch-up contribution[1]
Traditional and Roth IRAs	$ 5,500	$ 1,000
401(k)s, 403(b)s, 457s and SARSEPs[2]	$ 18,000	$ 6,000
SIMPLEs	$ 12,500	$ 3,000

[1] For taxpayers age 50 or older by the end of the tax year.

[2] Includes Roth versions where applicable.

Note: *Other factors may further limit your maximum contribution.*

More tax-deferred options

In certain situations, other tax-deferred savings options may be available:

You're a business owner or self-employed. You may be able to set up a plan that allows you to make much larger contributions than you could make to an employer-sponsored plan as an employee. You might not have to make 2015 contributions, or even set up the plan, before year end. SEP plans, for example, generally may be set up as late as the due date (including extensions) of your business's income tax return for that year.

Your employer doesn't offer a retirement plan. Consider a traditional IRA. You can likely deduct your contributions, though your deduction may be limited if your spouse participates in an employer-sponsored plan. You can make 2015 contributions as late as April 18, 2016. Your annual contribution limit (see Chart 4) is reduced by any Roth IRA contributions you make for the year.

Roth alternatives

A potential downside of tax-deferred saving is that you'll have to pay taxes when you make withdrawals at retirement. Roth plans, however, allow tax-free distributions; the tradeoff is that contributions to these plans don't reduce your current-year taxable income:

Roth IRAs. An income-based phaseout may reduce or eliminate your ability to contribute. But estate planning advantages are an added benefit: Unlike other retirement plans, Roth IRAs don't require you to take distributions during your life, so you can let the entire balance grow tax-free over your lifetime for the benefit of your heirs.

Roth conversions. If you have a traditional IRA, consider whether you might benefit from converting some or all of it to a Roth IRA. A conversion can allow you to turn tax-*deferred* future growth into tax-*free* growth and take advantage of a Roth IRA's estate planning benefits. There's no income-based limit on who can convert to a Roth IRA. But the converted amount is taxable in the year of the conversion.

Whether a conversion makes sense depends on factors such as:

- Your age,
- Whether the conversion would push you into a higher income tax bracket or trigger the 3.8% NIIT (see page 7),
- Whether you can afford to pay the tax on the conversion,
- Your tax bracket now and expected tax bracket in retirement, and
- Whether you'll need the IRA funds in retirement.

See Case Study IV for an example of these considerations in action.

"Back door" Roth IRAs. If the income-based phaseout prevents you from making Roth IRA contributions and you *don't* have a traditional IRA, consider setting up a traditional account and making a nondeductible contribution to it. You can then convert the traditional account to a Roth account with minimal tax impact.

Roth 401(k), Roth 403(b), and Roth 457 plans. Employers may offer one of these in addition to the traditional, tax-deferred version. You may make some or all of your contributions to the Roth plan, but any employer match will be made to the traditional plan. No income-based phaseout applies, so even high-income taxpayers can contribute. Plans can now more broadly permit employees to convert some or all of their existing traditional plan to a Roth plan.

Early withdrawals

Early withdrawals from retirement plans should be a last resort. With a few exceptions, distributions before age 59½ are subject to a 10% penalty on top of any income tax that ordinarily would be due on a withdrawal. Additionally, you'll lose the potential tax-deferred future growth on the withdrawn amount.

If you must make an early withdrawal and you have a Roth account, consider withdrawing from that. You can withdraw up to your contribution amount without incurring taxes or penalties. Another option: If your employer-sponsored plan allows it, take a plan loan. You'll have to pay it back with interest and make regular principal payments, but you won't be subject to current taxes or penalties.

Early distribution rules also become important if you change jobs or retire and receive a lump-sum retirement plan distribution. You should request a direct rollover from your old plan to your new plan or IRA. Otherwise, you'll need to make an indirect rollover within 60 days to avoid tax and potential penalties.

Warning: If you don't do a direct rollover, the check you receive from your old plan may be net of 20% federal income tax withholding. If you don't roll over the gross amount (making up for the withheld amount with other funds), you'll be subject to income tax — and potentially the 10% penalty — on the difference.

Required minimum distributions

After you reach age 70½, you must take annual required minimum distributions (RMDs) from your IRAs (except Roth IRAs) and, generally, from your defined contribution plans. If you don't comply, you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't. You can avoid the RMD rule for a non-IRA Roth plan by rolling the funds into a Roth IRA.

Waiting to take distributions until age 70½ generally is advantageous because of tax-deferred compounding. But a distribution (or larger distribution) in a year your tax bracket is low may save tax. Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could: 1) cause Social Security payments to become taxable, 2) increase income-based Medicare premiums and prescription drug charges, or 3) affect tax breaks with income-based limits.

If you've inherited a retirement plan, consult your tax advisor about the distribution rules that apply to you. ❖

Case Study IV

Traditional vs. Roth IRA: To convert or not to convert

Joe is deciding whether to convert his $50,000 traditional IRA to a Roth IRA. He wonders why he would want to pay the tax today at his 25% tax rate. After all, he reasons, that's $12,500 he'd be out of pocket now.

Joe is 40 years old and anticipates not having to use his IRA funds in retirement. Given the fact that the Roth IRA isn't subject to minimum distribution requirements (unless the account is inherited), Joe may be a good candidate for a Roth conversion. Over the years, his $50,000 account could grow to become a much larger amount, and all qualified distributions would be tax-free.

If Joe were 60 years old, the Roth conversion might still make sense, especially if he wanted to transfer his IRA to his children without their being subject to income tax on the distributions.

DID YOU KNOW?

You can make contributions to certain retirement plans as late as April 18, 2016, and still deduct them on your 2015 tax return.

Estate planning can secure your legacy

As difficult as it is, accumulating wealth is only the first step to providing a financially secure future for your family. You also need to develop a comprehensive estate plan. The earlier you begin, the more options you'll have to grow and transfer your wealth in a way that minimizes taxes and leaves the legacy you desire.

Estate tax

The estate tax rate is currently 40%, and it's scheduled to remain at that level. The estate tax exemption increased to $5.43 million for 2015 (see Chart 5), and it will continue to be adjusted annually for inflation.

To avoid unintended consequences, review your estate plan in light of the changing exemption. A review will allow you to make the most of available exemptions and ensure your assets will be distributed according to your wishes.

DID YOU KNOW?

If your spouse dies, you may be able to make tax-free gifts using his or her remaining exemption.

Gift tax

The gift tax continues to follow the estate tax exemption and rates. (See Chart 5.) Any gift tax exemption used during life reduces the estate tax exemption available at death. Using up some of your exemption during life can be tax-smart, depending on your situation and goals. See Case Study V.

You also can exclude certain gifts of up to $14,000 per recipient each year ($28,000 per recipient if your spouse elects to split the gift with you or you're giving community property) without depleting any of your gift tax exemption. This is the same as the 2014 amount. (The exclusion is adjusted for inflation annually, but it increases only in $1,000 increments, so it typically goes up only every few years.)

Warning: You need to use your 2015 exclusion by Dec. 31. The exclusion doesn't carry over from year to year. For example, if you don't make an annual exclusion gift to your granddaughter this year, you can't add $14,000 to your 2016 exclusion to make a $28,000 tax-free gift to her next year.

GST tax

The GST tax generally applies to transfers (both during life and at death) made to people more than one generation below you, such as your grandchildren. This is in addition to any gift or estate tax due. The GST tax continues to follow the estate tax exemption and rate. (See Chart 5.)

The GST tax exemption can be a valuable tax-saving tool for taxpayers with large estates whose children also have — or may eventually have — large estates. With proper planning, they can use the exemption to make transfers to grandchildren and avoid any tax at their children's generation.

State taxes

A federal estate tax deduction is available for state estate taxes paid. Keep in mind that some states impose estate tax at a lower threshold than the federal government does.

To avoid unexpected tax liability or other unintended consequences, it's critical to consider state law. Consult a tax advisor with expertise on your particular state.

Exemption portability

If one spouse dies and part (or all) of his or her estate tax exemption is unused at his or her death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining estate tax exemption.

Warning: Portability is available only for the most recently deceased spouse. It doesn't apply to the GST tax exemption and isn't recognized by some states. And it must be elected on an estate tax return for the deceased spouse — even if no tax is due.

The portability election will provide flexibility if proper planning hasn't been done before the first spouse's death.

CHART 5

Transfer tax exemptions and rates

Year	Estate tax exemption[1]	Gift tax exemption	GST tax exemption	Estate, gift and GST tax rate
2014	$ 5.34 million	$ 5.34 million	$ 5.34 million	40%
2015	$ 5.43 million	$ 5.43 million	$ 5.43 million	40%
Future years	Indexed for inflation	Indexed for inflation	Indexed for inflation	40%

[1] *Less any gift tax exemption already used during life.*

But portability doesn't protect future growth on assets from estate tax like applying the exemption to a credit shelter trust does. Trusts offer other benefits as well, such as creditor protection, remarriage protection, GST tax planning and state estate tax benefits.

So married couples should still consider marital and credit shelter trusts — and transferring assets to each other to the extent necessary to fully fund them at the first death. Transfers to a spouse (during life or at death) are tax-free under the marital deduction, assuming he or she is a U.S. citizen.

Tax-smart giving

Giving away assets now will help reduce the size of your taxable estate. Here are some strategies for tax-smart giving:

Choose gifts wisely. Consider both estate and income tax consequences and the economic aspects of any gifts you'd like to make:

- To minimize *estate tax*, gift property with the greatest future appreciation potential.
- To minimize *your beneficiary's income tax*, gift property that hasn't already appreciated significantly since you've owned it.
- To minimize *your own income tax*, don't gift property that's declined in value. Instead, consider selling the property so you can take the tax loss and then gifting the sale proceeds.

Plan gifts to grandchildren carefully. Annual exclusion gifts are generally exempt from the GST tax, so they also help you preserve your GST tax exemption for other transfers. For gifts to a grandchild that don't qualify for the exclusion to be tax-free, you generally must apply both your GST tax exemption and your gift tax exemption.

Gift interests in your business. If you own a business, you can leverage your gift tax exclusions and exemption by gifting ownership interests, which may be eligible for valuation discounts. So, for example, if the discounts total 30%, in 2015 you can gift an ownership interest equal to as much as $20,000 tax-free because the discounted value doesn't exceed the $14,000 annual exclusion.

Case Study V

When "taxable" gifts save taxes

Maureen has an estate of $8 million. In 2015, she has already made $14,000 annual exclusion gifts to each of her chosen beneficiaries. She's pleased that the $5.43 million gift and estate tax exemption will continue to be indexed for inflation. But she believes her estate will grow at a much faster rate and is concerned that she could have substantial estate tax exposure. So she gives away an additional $3 million of assets.

Maureen uses $3 million of her gift tax exemption by making the taxable gift. Therefore, her estate can't use that amount as an exemption. But by making the taxable gift, she also removes the future appreciation from her estate. If the assets, say, double in value before Maureen's death, the gift will essentially have removed $6 million from her estate. This amount escapes the estate tax.

One caveat: Watch out for taxable gifts made within three years of the date of death, because they may have to be brought back into the estate as though they had never been made.

Warning: The IRS may challenge the calculation; a professional, independent valuation is recommended.

Gift FLP interests. Another way to potentially benefit from valuation discounts is to set up a family limited partnership. You fund the FLP and then gift limited partnership interests. ***Warning:*** The IRS scrutinizes FLPs, so be sure to properly set up and operate yours.

Pay tuition and medical expenses. You may pay these expenses without the payment being treated as a taxable gift to the student or patient, as long as the payment is made directly to the provider.

Make gifts to charity. Donations to qualified charities aren't subject to gift tax and may provide an income tax deduction. (See page 2.)

Trusts

Trusts can provide significant tax savings while preserving some control over what happens to the transferred assets. You may want to consider these:

- A *credit shelter (or bypass) trust* helps married couples minimize estate tax and provides additional benefits.
- A *qualified terminable interest property (QTIP) trust* can benefit first a surviving spouse and then children from a prior marriage.
- A *qualified personal residence trust* (QPRT) allows you to give your home to your children today — removing it from your taxable estate at a reduced tax cost (provided you survive the trust's term) — while you retain the right to live in it for a certain period.
- A *grantor-retained annuity trust* (GRAT) works on the same principle as a QPRT but allows you to transfer other assets; you receive payments from the trust for a certain period.

Finally, a GST — or "dynasty" — trust can help you leverage both your gift and GST tax exemptions, and it can be an excellent way to potentially lock in the currently high exemptions while removing future appreciation from your estate.

Insurance

Along with protecting your family's financial future, life insurance can be used to pay estate taxes, equalize assets passing to children who aren't involved in a family business, or pass leveraged funds to heirs free of estate tax. Proceeds are generally income-tax-free to the beneficiary. And with proper planning, you can ensure proceeds are excluded from your taxable estate. ❖

CHART 6

2015 individual income tax rate schedules

Tax rate	Regular tax brackets			
	Single	Head of household	Married filing jointly or surviving spouse	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
Tax rate	**AMT brackets**			
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	$ 0 – $ 185,400	$ 0 – $ 185,400	$ 0 – $ 185,400	$ 0 – $ 92,700
28%	Over $ 185,400	Over $ 185,400	Over $ 185,400	Over $ 92,700
	AMT exemptions			
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Amount	$ 53,600	$ 53,600	$ 83,400	$ 41,700
Phaseout[1]	$ 119,200 – $ 333,600	$ 119,200 – $ 333,600	$ 158,900 – $ 492,500	$ 79,450 – $ 246,250

[1] The AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.

Note: *Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax."*

CHART 7

2015 corporate income tax rate schedule

Tax rate	Tax brackets
15%	$ 0 – $ 50,000
25%	$ 50,001 – $ 75,000
34%	$ 75,001 – $ 100,000
39%	$ 100,001 – $ 335,000
34%	$ 335,001 – $ 10,000,000
35%	$ 10,000,001 – $ 15,000,000
38%	$ 15,000,001 – $ 18,333,333
35%	Over $ 18,333,333

Note: *Personal service corporations are taxed at a flat 35% rate.*

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