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2015 Year-End Tax Planning for Individuals

It's the end of the year and we are anxiously waiting for Congress to enact extensions of popular tax breaks, and every year, Congress waits to act until what seems like the last possible moment. Last year the extenders were passed in December; that legislation extended more than 50 provisions retroactively, but, in most cases, those extensions expired again at the end of 2014. In 2013, Congress acted even later, waiting until January 2014 to extend the 2013 provisions. At this point it is still uncertain if, or when, Congress will act to extend the expired provisions, but there are a number of steps individual and businesses can take to reduce taxes, even without the expired provisions.

Generally, to reduce 2015 taxes, businesses will want to accelerate deductions into this year and delay income until next year. Cash-method businesses that want to defer income should consider delaying the sending of late-in-the-year invoices, so payment is not received until 2016. Accrual-method businesses should, if possible, hold off on providing goods or services to customers until after Jan. 1. Business taxpayers should be looking to maximize deductions and depreciation. Identify purchases and money that can be spent on deductible expenses this year instead of waiting until 2016.

ATTENTION ALL SMALL BUSINESS OWNERS

New Mexico Taxation & Revenue has been aggressively comparing gross receipts reported on Form CRS-1 to the amount reported on tax returns. ***If you file your own CRS-1's please send us copies of the reports with your tax information so we can insure you are in compliance.***

AFFORDABLE CARE ACT

All Americans will be affected in some manner by the Affordable Care Act. There will be **5 new tax forms** released by the IRS as a result of this act. ***If you receive a Form 1095 from any issuer or agency, we MUST have all copies to prepare your tax return***. If you did not receive a Form 1095, we must ask you a number of additional questions about insurance coverage so that we can help you avoid any penalties for failure to have health insurance. These 5 new forms will add to the cost of this year's tax preparation bill, courtesy of the Affordable Care Act, and the estimated 1-3 hours of additional time. We are not making a political statement, we are taking the law as it is.

CHILDREN/STUDENT TAX RETURNS Under no circumstances can you allow your dependent children or college students to file their own returns this year. We must file their returns because of the Affordable Care Act. Allowing a child to file their own return, particularly a student, can cost the child and parents literally thousands of dollars in Health Care penalties and/or credits.

SEC. 179 EXPENSE AND BONUS DEPRECIATION FOR 2015

Absent the retroactive increase in the Section 179 limit, the limit for 2015 will drop to $25,000 with a phase out of $200,000 in asset purchases. The assets must be placed in service in 2015 to qualify for depreciation in 2015. The 2014 Section 179 deduction limitation was $500,000 and the phase-out threshold amount was $2,000,000. Bonus depreciation (50% expense) has also expired.

IRA CONTRIBUTION LIMITS

For 2015 and 2016, your total contributions to all of your traditional and Roth IRAs cannot be more than $5,500 ($6,500 if you're age 50 or older), or your taxable compensation for the year, if your compensation was less than this dollar limit. Remember you have until April 15th, 2016 to contribute to an IRA for the 2015 tax year.

Consider maximizing retirement contributions and/or IRA contributions to reduce taxable income. If you purchased your health insurance on the exchange it may help to maximize your premium tax credit.

REQUIRED MINIMUM DISTRIBUTIONS IN 2015

If you are over 70½ you will need to make a required minimum distribution from your IRAs. The distribution for 2015 is based on your age and your Dec. 31, 2014 balance. If you turn age 70½ in 2015 you have until April 1, 2016 to take the distribution but you must also take your 2016 distribution before December 31, 2016. It is advisable to take your 2015 distribution by December 31, 2015. One provision that has not been extended is the qualified charitable distribution (QCD). A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70 ½ or over that is paid directly from the IRA to a qualified charity. Under the old provisions an IRA owner could exclude from gross income up to $100,000 of a QCD made for a year and the QCD could be used to satisfy any IRA required minimum distributions. This may be passed retroactively, but this has not been done yet.

CONVERTING FROM A TRADITIONAL IRA TO A ROTH IRA

Converting your traditional IRA to a Roth may still be a good idea in 2015 and 2016. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply, but the distribution is still subject to Federal and State income tax. Please do not convert your accounts without contacting us to discuss the positives and negatives. All conversions for 2015 must be completed by December 31, 2015.

CAPITAL GAINS AND DIVIDENDS

The long-term capital gain and qualified dividend tax rate for taxpayers below the 25% bracket is equal to 0%. Taxpayers in the two lowest income tax brackets will pay no capital gains tax when they sell investments they have held for more than one year. The zero capital gains treatment will not be available to children and students affected by the so-called kiddie tax. Retirees and other taxpayers in the 10% and 15% brackets may want to sell long-term investments this year, because they'll qualify for tax-free gains. Qualified dividends are also tax free for those taxpayers in the lower tax brackets. For income in excess of these thresholds, $413,201 (individual), $439,001 (HOH) and $464,851 (MFJ) the rate for both capital gains and qualified dividends is 20%. Higher-income taxpayers may also be subject to the 3.8% Medicare surtax, making the long-term capital gains and qualified dividends subject to a 23.8% federal tax rate.

CHARITY

ALL deductions of any amount must have a receipt. Any individual contribution of $250 must also have an acknowledgment letter from the charity, and the letter must be dated by the date we file your return.

Consider contributing stock to your church or favorite charity. You get a deduction for the fair market value of the stock, but you pay no tax on the capital gain. Actually, you can contribute any appreciated property and avoid capital gains.

MEDICAL EXPENSES

If you are under the age of 65 you can deduct medical expenses in excess of 10% of your adjusted gross income. If you are over 65 then the threshold remains at 7.5%. If you will itemize this year and you have a large amount

of medical expenses, consider paying every medical bill you can before the year ends, such as optometrists, dentists, and prescription renewals.

CREDITS FOR COLLEGE COSTS

If you are paying your dependents' tuition on a monthly basis, you will get a larger credit if you pay the balance due by December 31, 2015. Please bring in any Form 1098-T, Tuition Statements you receive.

FEDERAL SOLAR TAX CREDIT

In 13 months the solar industry faces the end of the line for the 30% federal tax credit. If you have been considering this credit you have until December 31, 2016 to take advantage of the up to 30% of the cost of solar energy systems, fuel cells, small wind energy systems and geothermal heat pumps. The tax credit for residential energy efficiency improvements of up to $500 is a provision that expired on December 31, 2014.

YEAR END PLANNING FOR SELF-EMPLOYED

Employ Minor Children in the Family Business

Wages paid to a child under 18 years of age by a sole proprietorship are not subject to FICA taxes. A child claimed as a dependent is not allowed to claim himself or herself as a dependent. The standard deduction for single taxpayers this year is $6,300. If you pay your child $6,300 or less he/she will not owe any tax. If your child puts $5,500 in a deductible IRA, he/she could earn up to $11,800 and not owe any tax.

Promise To Pay

A promise to pay or providing a note does not permit you to deduct the expense. But you can take a deduction if you pay with money borrowed from a third party. Hence, if you make a purchase with a credit card in 2015, you can take the deduction even though you won't pay your credit card bill until 2016.

Self-Employed Health Insurance Premiums

Self-employed individuals are still allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the 10% of AGI floor.

This past year, the IRS has increased the number of limited scope audits which are focusing on auto, travel and meals. It is very important that you keep an auto log to substantiate your business mileage. Also, keep a calendar of your meetings for meals you are deducting, naming whom you met with and what was discussed.

If you have any questions, please call Charlie, Barbara, or Marshall. There is still time to setup an appointment for year-end tax planning by December 31. We recommend a meeting if you have had any major changes during 2015 or are expecting major financial changes in 2016, such as retirement or inheritances, etc.

We thank you for your ongoing support and will do everything to keep your tax burden the lowest legal amount.

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