STEVEN E SENDER CPA, LTD
ACCOUNTING TAX PLANNING & COMPLIANCE BUSINESS ADVISORY

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To Our Clients and Friends:

Year-end planning will be challenging again this year. Unless Congress acts, a number of popular deductions and credits that expired at the end of 2014 won't be available for 2015. Deductions not available this year include, for example, the election to deduct state and local sales taxes instead of state and local income taxes and the above-the-line deductions for tuition and educator expenses, generous bonus depreciation and expensing allowances for business property, and qualified charitable distributions that allow taxpayers over age $70^1/_2$ to make tax-free transfers from their IRAs directly to charities. Of course, Congress could revive some or all of the favorable tax rules that have expired like they have done in the past. However, which actions Congress will take and when they will be taken remains to be seen.

What we've listed below are a few money-saving ideas that you may want to put in action before the end of 2015:

- For 2015, the standard deduction is $12,600 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,300. Currently, it looks like these amounts will be about the same for 2016. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You can claim actual expenses in the year they are bunched and take the standard deduction in the intervening years. For instance, you might consider moving charitable donations you normally would make in early 2016 to the end of 2015.

- If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss will be available.

- Solve an underpayment of estimated tax problem. Because of the additional .9% Medicare tax and/or the 3.8% surtax on unearned income, more individuals may be facing a penalty for underpayment of estimated tax than in prior years. An employed individual who is facing a penalty for underpayment of estimated tax as a result of either of these new taxes or for any other reason should consider asking his employer—if it's not too late to do so—to increase income tax withholding before year-end. Generally, income tax withheld by an employer from an employee's wages or salary is treated as paid in equal amounts on each of the four estimated tax installment due dates. Thus, if an employee asks his employer to withhold additional amounts for the rest of the year, the penalty can be retroactively eliminated. This is because the heavy year-end withholding will be treated as paid equally over the four installment due dates.

- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year.

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- Make sure you have adequate health insurance coverage (referred to as minimum essential coverage). If you don't, you may be subject to a penalty. Medical insurance provided by your employer or through an individual plan purchased through a state insurance marketplace generally qualifies for adequate coverage. The penalty amount varies based on the number of uninsured members of your household and your household income. If you have three or more uninsured household members, the penalty may be $975 or more for 2015 ($2,085 more for 2016), depending on your household income.

- Make HSA contributions. Under Code Sec. 223(b)(8)(A), a calendar year taxpayer who is an eligible individual under the health savings account (HSA) rules for December 2015, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2015, may then make a full year's deductible-above-the-line contribution for 2015. If he makes that maximum contribution, he gets a deduction of $3,300 for individual coverage and $6,550 for family coverage (those age 55 or older also get an additional $1,000 catch-up amount).

- Make year-end gifts. A person can give any other person up to $14,000 for 2015 without incurring any gift tax. The annual exclusion amount increases to $28,000 per donee if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate, and shift the income tax obligation on the property's earnings to the donee who may be in a lower tax bracket (if not subject to the kiddie tax).

- Be sure to take required minimum distributions (RMDs). Taxpayers who have reached age 70- 1/2 should be sure to take their 2015 RMD from their IRAs or 401(k) plans (or other employer-sponsored retired plans). Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Those who turned age 70-1/2 in 2015 can delay the first required distribution to 2016. However, taxpayers who take the deferral route will have to take a double distribution in 2016 — the amount required for 2015 plus the amount required for 2016.

- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end to ensure you have sufficient basis to claim a full deduction.

- And finally, watch out for the Alternative Minimum Tax (AMT) in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. If you'd like to know more about them or want to discuss other ideas, please feel free to call us.

Very truly,

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