Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

15 Of The Best Year-End Tax Moves Left In 2015

As the end of this year approaches, you still have time to cut your tax bill, especially when it comes to your investments and retirement plans. Here are 15 top tax-saving ideas to consider in 2015:

1. Harvest capital losses. This tried-and-true tax strategy for investors still makes sense. By realizing capital losses from securities sales, you can offset highly taxed short-term capital gains, plus up to $3,000 of ordinary income. Any excess loss is carried over.

2. Reap capital gains. Conversely, if you sell securities qualifying for long-term capital gain treatment, the maximum tax rate is only 15% or 20% if you're in the top ordinary income tax bracket. Compare this to ordinary income rates reaching up to 39.6%.

3. Maximize 0% capital gains. Even better than the usual 15% or 20% maximum tax rate, you can benefit from a 0% rate on long-term capital gains up to the top of the 15% tax bracket. For a year in which your income temporarily dips—because of a business loss, for example—this can turn into a bonanza.

4. Minimize the surtax on net investment income. This 3.8% surtax applies to whichever is lower: your net investment income (NII); or the amount of your modified adjusted gross income (MAGI) that exceeds $200,000 for single filers and $250,000 for joint filers. There's still time to take steps to reduce your NII and MAGI for this purpose.

5. Avoid wash sale rule. Under the wash sale rule, you can't deduct a loss from the sale of securities if you acquire substantially identical securities within 30 days of the sale. But the rule easily can be avoided by waiting at least 31 days to acquire similar securities.

6. Sell real estate in installments. Generally, you can defer tax on the sale of real estate if you receive payments over two years or longer. In addition to deferring tax, you can reduce the effective tax rate by staying below the thresholds for capital gains and the 3.8% surtax.

7. Convert to a Roth IRA. If you have funds in a traditional IRA, you might transfer those funds to a Roth, though you will be taxed on the conversion. Future Roth distributions generally are tax-free. Instead of converting all at one time, you can stagger taxable conversions over several years to reduce the tax bite.

8. Bulk up your 401(k). If you increase deferrals to a 401(k) plan, you can reduce the amount of your employment income that's subject to tax. And take advantage of the generous $18,000 deferral limit in 2015 ($24,000 if you're 50 or older). Not only do you avoid tax on the contributions, these amounts compound tax-deferred until you withdraw them during retirement.

9. Don't forget to take required withdrawals from your retirement

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What Do You Think Your Life Will Be Like In Retirement?

Much that is written about or spoken about retirement relates to the need to save for your life after work. How much have you accumulated? How much more do you need to save? How is your money invested? Should you downsize your home? Have you planned far enough into the future?

These are all legitimate questions you'll want to address well in advance of the day you finally call it quits. But are you also asking yourself the "other" question: What will my retirement be like? Your lifestyle is likely to change drastically when you retire, and it's a good idea to try to prepare yourself for the road ahead.

Recognize that the changes aren't just financial. Are you mentally and physically ready for retirement? Often, people who stop working wonder what to do with all of their free time. Here are some of the possibilities you might want to consider:

- Start or expand a hobby.
- Join a gym or take up golf or another sport.
- Become active in a seniors group.
- Volunteer for charity work.
- Travel extensively.
- Go back to school or otherwise learn a new skill.
- Go back to work on a part-time basis (perhaps as a consultant).

These activities may provide purpose and meaning in the years ahead as you focus on the quality of life you hope to enjoy in retirement. It's just as important to set your sights on your personal objectives as it is to save enough money to live on.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation.
While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

Three Ways To Defuse Estate Rifts

It's impossible to know what will happen to your family after you're gone, but it's doubtful you're envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it's crucial that yours meets all of the technicalities of your jurisdiction. It's likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won't cover every last trinket you own, and it's a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;
- Details of cemetery plots and funeral arrangements;
- Contacts for legal, tax, and financial information;
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;
- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

How Low Can Capital Gains Tax Go?

What's better than paying today's 15% or 20% maximum tax rates on long-term capital gains and qualified dividends? How about paying 0%? That's not a misprint. If you qualify, the tax on a portion or all of your net long-term capital gain is an absolute zero.

What's more, this unique tax break isn't necessarily reserved for people who don't make much money. In some cases, it also can benefit those who normally earn high incomes.

According to basic rules for taxing capital gains, short-term gains from selling stocks, bonds, or other capital assets that you've owned for a year or less are taxed at ordinary income rates reaching as high as 39.6%. If you've owned the assets for more than one year, your profit on a sale is treated as a long-term capital gain and taxed at a maximum of 15% for those in most tax brackets or 20% if you're in the top ordinary income bracket of 39.6%.

However, short-term and long-term gains for the year may be offset in whole or in part by losses you've taken on other asset sales.

Similar rules apply to "qualified" dividends that meet specified requirements, including that you've held the stock in question for at least 61 days.

But some investors can do even better than these favorable rates. If you are in either of the two lowest ordinary income tax brackets—with rates of 10% or 15%—your net long-term gains will be taxed at the 0% rate. This tax break often is available to young children and other investors who don't earn much in wages. But don't assume you can't jump on the bandwagon.

For example, suppose you earn an annual salary of $100,000 but you suffer a business loss of $50,000

Key Social Security Benefit Rules For Couples

When you retire, you're entitled to receive Social Security benefits after paying into the system during all of your working years. But the Social Security Administration (SSA) won't start sending you checks automatically. You must apply for benefits. What's more, you'll likely face some difficult choices, especially if you're married. Consider these common scenarios:

Single-Income Couples

If your family has depended on a sole breadwinner, the spouse who didn't have annual earnings is eligible for retirement benefits when the working spouse claims retirement benefits, or to get survivor benefits when the working spouse dies. (The working spouse doesn't get survivor benefits at the death of the spouse who didn't work.)

Two key rules may affect the decisions about Social Security of single-income couples:

- If the working spouse delays retirement benefits past full retirement age (FRA), up to age 70, both the retirement benefits and the potential survivor benefits will increase. By the same token, if the working spouse claims early benefits, starting at age 62, both retirement benefits and potential survivor benefits will be reduced permanently.
- A nonworking spouse can't claim spousal retirement benefits until the working spouse claims retirement benefits.

However, under a special rule, a working spouse can claim retirement benefits at FRA while the nonworking spouse begins spousal benefits at age 62. Then the working spouse can suspend benefits until reaching age 70. During this time, the potential survivor benefits of the nonworking spouse keep growing.

Dual-Income Couples

Typically, as a married couple nears FRA, the earnings records of both spouses may affect the Social Security retirement benefits each of them will receive. Each spouse could claim spousal benefits based on the other spouse's earnings history, as well as a survivor benefit when the other spouse dies.

Either spouse can begin taking retirement benefits as early as age 62. And once one spouse begins receiving Social Security payments, the other can start receiving spousal benefits at age 62, or survivor benefits if the other spouse dies, beginning as early as age 60.

There's one guiding principle to keep in mind as you navigate these complicated rules: You can claim only one kind of Social Security benefit at a time. Usually, that simply means claiming the highest benefit available to you, but that's not always the best choice.

Generally, if one spouse has earned significantly less than the other spouse, the lower-earning spouse could decide to forgo his or her own benefits and instead claim a spousal benefit of up to 50% of the first spouse's full retirement benefit.

If the higher-earning spouse delays benefits past FRA, that spouse's eventual benefits will increase until he or she reaches age 70. But the lower-earning spouse can't claim spousal benefits until the other spouse applies for benefits, and the amount of the spousal benefit is capped at 50% of the benefits available to the first spouse at FRA. There is no increase in the spousal benefit if the higher-earning spouse delays benefits.

However, using the claim-and-suspend strategy, the higher-earning spouse can claim retirement benefits at FRA—thus enabling the lower-earning spouse to claim spousal benefits—and then suspend the benefits claim. The higher-earning spouse can wait as long as until age 70 to "unsuspend" and claim higher benefits than those allowed at FRA. In the meantime, the lower-earning spouse can collect spousal benefits.

Claim-and-switch strategies: When you reach FRA, you may be able to claim the higher of the benefits based on your earnings history and your spouse's earnings history. However, if the spousal benefit amount is close to the amount of your own benefit, you could file a "restricted application" allowing only spousal benefits, which then enables your own retirement benefits to continue to grow. Later, you can switch to your own retirement benefit, which will be 8% higher for each year you delay past FRA, up to age 70. Then you can rely permanently on these higher benefits.

With another claim-and-switch strategy, you might claim early retirement or spousal benefits at age 62 and switch to survivor benefits after your spouse dies. Normally, you would be locked into lower benefits by claiming early retirement benefits, but that doesn't apply to subsequent survivor benefits. (However, if your spouse also elects early retirement, your eventual survivor benefits will be reduced.) This strategy may be helpful if the higher-earning spouse is considerably older than the lower-earning spouse.

The rules governing these choices can be extremely complex. We can help you make the best decisions for your situation. ●

from your S corporation in 2015. That leaves you with $50,000 in taxable income for the year to report on a joint tax return.

Under tax rates in effect for 2015, the upper threshold of the 15% tax bracket is $74,900. In other words, you can realize a long-term capital gain of up to $24,900 without passing that upper limit and without paying any tax on the gain. And if you realize a larger gain, you still can benefit from the 0% tax on the first $24,900.

Now is a good time to assess your personal situation for the year. If you're in line for the 0% tax rate and it otherwise makes good investment sense to sell assets on which you'll realize long-term capital gains, don't miss out on the opportunity. ●

Here's What You Can't Do In An IRA

If you have an IRA, you know how easy it is to move assets from one investment to another. You're able to choose from a wide array of investment options, and to take out money whenever you want, although you'll have to pay tax when you do. But there are some things you can't do with an IRA. There are strict rules against certain "prohibited transactions," which are spelled out in the tax laws. And there could be adverse consequences if you don't comply with the requirements.

The IRS defines a prohibited transaction as any improper use of an IRA by the owner, his or her beneficiary, or any "disqualified" person. That last includes IRA fiduciaries and members of the owner's family. An IRA fiduciary is someone who (1) exercises any discretionary authority or control in managing the IRA or exercises authority or control in managing or disposing of its assets; (2) provides investment advice to the IRA for a fee, or has any authority or responsibility for doing so; or (3) has discretionary authority or responsibility for administering the IRA.

What can't you do with your IRA? You're prohibited from:

- Borrowing money from it;
- Selling property to it;
- Using it as security for a loan;
- Buying property for personal use with IRA funds.

You can, however, effectively take a short-term loan from your IRA by withdrawing funds from it and then depositing the same amount back into the same or a different IRA within 60 days. That is technically a "rollover" and is not treated as a prohibited transaction.

Trap

IRAs – Prohibited Transactions

- Any direct or indirect sale or exchange, or leasing, of any property between a plan and a disqualified person; commonly:
  - Residence or cottage
  - Business interest
  - Investment real estate
- Qualified Plan Penalties
  - 15 percent tax on the amount involved with a prohibited transaction
  - 100 percent tax if the prohibited transaction is not corrected
- IRA
  - Entire account is immediately disqualified & deemed distributed
  - Entire account is subject to income taxation

If a prohibited transaction occurs, your account stops being an IRA as of the first day of the year of the violation. The net effect is that you're treated as having received a distribution of all of the IRA assets equal to their fair market value (FMV) on January 1 of that year. Assuming the total FMV exceeds your basis in the assets, you owe tax on the difference, just like you would on any other withdrawal. Plus, you're generally required to pay a 10% penalty if you're younger than 59½.

Other rules restrict the types of investments you can make in an IRA. For instance, you can't invest in life insurance or collectibles such as works of art, stamps, precious stones, or jewelry. With a few limited exceptions, IRA funds also can't be invested in gold or silver coins. And the IRA can't hold any property that you personally use, such as your primary residence or a vacation home. Holding certain other types of real estate, however, such as undeveloped land, may be permitted.

The tax law gives you plenty of leeway with regard to IRAs, but there are limits to that freedom. Make sure not to step over the line. ●

Year-End Tax Moves Left In '15

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plans. If you are over age 70½, you generally have to take required minimum distributions (RMDs) from qualified retirement plans and traditional IRAs each year. The penalty for failing to do so is equal to 50% of the required amount, so don't miss the December 31 deadline.

10. Donate stock to charity. When you donate appreciated property such as stock to a charity, you generally can deduct the fair market value of the property if you've held it more than a year. Thus, the appreciation in value of the stock remains untaxed forever.

11. Watch out for the alternative minimum tax. The AMT often snares high-income investors. Educate yourself about all the adjustments and tax preference items that affect AMT liability. By postponing some preferences to 2016, you might be able to reduce or avoid the AMT.

12. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI) in 2015 (7.5% of AGI if age 65 or older). If you group elective expenses this year you might clear the threshold.

13. Shift income within your family. If you transfer taxable investments to a lower-taxed family member, such as a young child, the family may save tax overall. However, under the kiddie tax, if a child receives investment income of more than $2,100 in 2015 it generally will be taxed at the parents' top tax rate.

14. Rent out a vacation home. Normally, you can write off all of the rental expenses of a vacation home, plus depreciation. However, if your use of a vacation home exceeds the greater of 14 days, or 10% of the days the home is rented out, deductions are limited to the amount of rental income. Stay below this threshold.

15. Give year-end gifts. Last, but not least, you can give each family member up to $14,000 in 2015 without paying gift tax. This annual gift tax exclusion reduces the size of your taxable estate. ●

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