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2015 Year-End Tax Planning Basics

AMT triggers

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

The window of opportunity for many tax-saving moves closes on December 31, so it's important to evaluate your tax situation now, while there's still time to affect your bottom line for the 2015 tax year.

Timing is everything

Consider any opportunities you have to defer income to 2016. For example, you may be able to defer a year-end bonus, or delay the collection of business debts, rents, and payments for services. Doing so may allow you to postpone paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on the income as well.

Similarly, consider ways to accelerate deductions into 2015. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes by making payments before year-end. Or you might consider making next year's charitable contribution this year instead.

Sometimes, however, it may make sense to take the opposite approach--accelerating income into 2015 and postponing deductible expenses to 2016. That might be the case, for example, if you can project that you'll be in a higher tax bracket in 2016; paying taxes this year instead of next might be outweighed by the fact that the income would be taxed at a higher rate next year.

Factor in the AMT

Make sure that you factor in the alternative minimum tax (AMT). If you're subject to the AMT, traditional year-end maneuvers, like deferring income and accelerating deductions, can have a negative effect. That's because the AMT--essentially a separate, parallel income tax with its own rates and rules--effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2015, prepaying 2016 state and local taxes won't help your 2015 tax situation, but could hurt your 2016 bottom line.

Special concerns for higher-income individuals

The top marginal tax rate (39.6%) applies if your taxable income exceeds $413,200 in 2015 ($464,850 if married filing jointly, $232,425 if married filing separately, $439,000 if head of household). And if your taxable income places you in the top 39.6% tax bracket, a maximum 20% tax rate on long-term capital gains and qualifying dividends also generally applies (individuals with lower taxable incomes are generally subject to a top rate of 15%).

If your adjusted gross income (AGI) is more than $258,250 ($309,900 if married filing jointly, $154,950 if married filing separately, $284,050 if head of household), your personal and dependency exemptions may be phased out for 2015 and your itemized deductions may be limited. If your AGI is above this threshold, be sure you understand the impact before accelerating or deferring deductible expenses.

Additionally, a 3.8% net investment income tax (unearned income Medicare contribution tax) may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

Note: *High-income individuals are also subject to an additional 0.9% Medicare (hospital insurance) payroll tax on wages exceeding $200,000 ($250,000 if married filing jointly or $125,000 if married filing separately).*

IRAs and retirement plans

Take full advantage of tax-advantaged retirement savings vehicles. Traditional IRAs and employer-sponsored retirement plans such as 401(k) plans allow you to contribute funds on a deductible (if you qualify) or pretax basis, reducing your 2015 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible or made with pretax

Required minimum distributions

Once you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan). You have to make the withdrawals by the date required--the end of the year for most individuals--or a 50% tax penalty applies.

dollars, so there's no tax benefit for 2015, but qualified Roth distributions are completely free from federal income tax, which can make these retirement savings vehicles appealing.

For 2015, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional IRA or Roth IRA ($6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan typically closes at the end of the year, while you generally have until the April tax filing deadline for your 2015 federal income tax return to make 2015 IRA contributions.

Roth conversions

Year-end is a good time to evaluate whether it makes sense to convert a tax-deferred savings vehicle like a traditional IRA or a 401(k) account to a Roth account. When you convert a traditional IRA to a Roth IRA, or a traditional 401(k) account to a Roth 401(k) account, the converted funds are generally subject to federal income tax in the year that you make the conversion (except to the extent that the funds represent nondeductible after-tax contributions). If a Roth conversion does make sense , you'll want to give some thought to the timing of the conversion. (Whether a Roth conversion is right for you depends on many factors, including your current and projected future income tax rates.) For example, if you believe that you'll be in a better tax situation this year than next (e.g., you would pay tax on the converted funds at a lower rate this year), you might want to think about acting now rather than waiting.

If you convert a traditional IRA to a Roth IRA and it turns out to be the wrong decision (things don't go the way you planned and you realize that you would have been better off waiting to convert), you can recharacterize (i.e., "undo") the conversion. You'll generally have until October 15, 2016, to recharacterize a 2015 Roth IRA conversion--effectively treating the conversion as if it never happened for federal income tax purposes. You can't undo an in-plan Roth 401(k) conversion, however.

Changes to note

- Generally, the maximum "individual shared responsibility payment" (the amount owed if you don't have qualifying health coverage for each month of the year, or otherwise qualify for an exemption) increased to 2% of household income with a family maximum of $975 for 2015; in 2016 the maximum amount owed jumps to 2.5% of household income, with a family maximum of $2,085.
- In June, the U.S. Supreme Court ruled 5-4 that same-sex couples in the United States have a constitutional right to marry, regardless of the state in which they live. This significantly simplifies the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

Tax extenders

Once again, the status of a number of serially extended, popular tax breaks remains uncertain as the end of the year approaches.. These "tax extenders" last expired at the end of 2014. It's likely that some or all of these provisions will be retroactively extended, but there's no guarantee. You'll want to consider carefully the potential effect of these provisions on your 2015 tax situation and stay alert for late-breaking changes. Tax-extender provisions include:

- The ability to make qualified charitable contributions (QCDs) of up to $100,000 from an IRA directly to a qualified charity if you are 70½ or older. Such distributions are excluded from income but counted toward satisfying any RMDs you would otherwise have to receive from your IRA.
- Increased Internal Revenue Code (IRC) Section 179 expense limits and "bonus" depreciation provisions.
- Above-the-line deductions for qualified higher-education expenses, and for up to $250 of out-of-pocket classroom expenses paid by education professionals.
- For those who itemize deductions, the ability to deduct state and local sales taxes in lieu of state and local income taxes.
- The ability to deduct premiums paid for qualified mortgage insurance as deductible interest on IRS Form 1040, Schedule A.

Talk to a professional

When it comes to year-end tax planning, there's always a lot to think about. A tax professional can help you evaluate your situation, keep you apprised of any legislative changes, and determine whether any year-end moves make sense for you.

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