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Special Issue

Comprehensive Year-End Tax Planning

C&A COLLIER & ASSOCIATES INCORPORATED

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Seminar Updates

Porsche Driving School/Collier & Assoc. Seminar, Birmingham, AL, September 14-18, 2016 and Alaska Cruise Seminar July 23-30, 2017, on Un-Cruise's Safari Endeavor: If interested in attending either of these once-in-a-lifetime seminars, you must let us know and put down a deposit by November 25 to guarantee a spot.

Practice Transition and Advanced Investment Seminars - New York (East Side Marriott, December 3-5) and Chicago (December 10-12): We have secured great room rates for these meetings of $399 at the East Side Marriott and $230 at the Ritz Carlton that are far less than currently being advertised online. Register soon as our room blocks are filling up and we have some great new speakers for the Advanced Investment seminars.

Comprehensive Year-End Tax Planning

We are now far enough into the year that you can estimate your income and expenses. That's the first step. Once you have an idea of your taxable income (i.e., the net amount after deductions, personal exemptions, etc.), you can do some year-end planning. The goal is to **minimize** our tax bill for **both** 2015 and 2016. Here are some ideas:

1. **Maximize Retirement Plan Contributions If A Plan Works For You**: This is the single best tax shelter available! The long-term tax advantages of a practice retirement plan (deductible contributions and decades of tax deferral) will overwhelm the costs (staff contributions and administration) where the doctor(s) and family members on the payroll get at least 65% of the annual contributions. However, we would use 70% as the threshold before we would draft the plan documents for a new client, since having a plan is not hassle-free. In other words, we would recommend starting a plan if the key people get at least 70% of the contribution. We would amend a current plan to implement a better allocation formula or else eliminate or scale back contributions if the key people's percentage drops below 65%. If the key people can receive at least 70%, and if the money that would have been contributed is being taken home, taxed, and saved anyway, then we strongly recommend maximizing plan contributions. A new plan must be established by December 31, 2015 in order to make a 2015 contribution. *If interested in setting up a new qualified plan, call our office for information.*

2. **Shifting Business Income And Expenses Between 2015 And 2016**: In general, we will cut our 2015 taxes by accelerating deductions into 2015 and deferring income until next year. We can

pre-pay up to 12 months of expenses in advance. These include lease payments on vehicles, office rent, and business and malpractice insurance. However, if we expect to be in a higher bracket in 2016, we'd do the opposite – accelerate income (i.e., speed up billings) and delay deductions to 2016.

To mitigate the impact of the 3.8% tax on investment income and the new 0.9% Medicare tax, strive to keep W-2 low. High earners in S corporations (and LLCs taxed as S corps) should set their compensation at the max that can be taken into account for retirement plan contributions (this year $265,000) and take the rest as distributions. If you own your office building then keep rent payments high, as this rent is excluded from the 3.8% tax. In some cases it pays to accelerate income into 2015 and delay expenses to 2016 - if you expect to be in a higher tax bracket in 2016, you're planning on getting married next year, or you expect to start receiving Social Security benefits next year. Your CPA can give you a preliminary estimate whether you will pay the alternative minimum tax (AMT). If so, then you will not want to prepay certain expenses that are non-deductible for purposes of the AMT, such as real estate and state income taxes.

3. **If Incorporated, Use Extra Payroll Withholdings To Make Up Personal Tax Prepayment Shortfalls**: That's better than increasing quarterly estimates. Withheld taxes are counted for calculating the under-payment penalty as if they were pre-paid evenly throughout the year. If you need to catch up, you can go so far as to allocate your entire pay to payroll taxes and drop your take-home pay to zero.

4. **Put Your Spouse On The Practice Payroll If You Want Any Chance To Deduct His Or Her Business Travel Costs (And It Might Also Help Your Retirement Plan Funding)**: The spouse must be a bona fide employee for the practice to deduct a family member's business travel costs. It's a judgment call as to how much pay is needed to support the employee status, but even a token amount should suffice. If your spouse could receive a retirement plan contribution of at least 12.4% of his or her pay (which is your added Social Security tax cost from raising your spouse's pay), without increasing staff contributions, then setting your spouse's pay as high as reasonably justified makes sense – even while incurring extra Social Security payroll taxes. If your spouse is not yet on the payroll, he or she can start now. Getting the spouse in the plan immediately in order to earn a 2015 contribution may require a plan amendment. But, it is worth doing, especially if it won't bring other employees into the plan.

5. **Finalize Roth IRA Planning**: 2015 IRA contributions technically aren't due until April 18, 2016 (April 19 for Mass. and Maine residents). However, a 2015 Roth IRA conversion must be made by Dec. 31, 2015. If you will have a "cream in the coffee" problem (i.e., some or most of what you think should be a tax-free conversion will be taxable due to the existence of other IRA accounts) then transfer the pre-tax IRA dollars to your practice's qualified retirement plan **now** and then convert the after-tax contributions to the Roth IRA.

6. **Fund HSAs By Year-End**: The deadline is April 18/19, 2016, but we prefer this to be done by year-end. The 2015 limits are $3,350 for a single policy and $6,650 for a family. Each spouse can contribute an additional $1,000 if they are at least age 55, for a total family HSA contribution of up to $8,650. (If both spouses want to make the added $1,000 contributions they must each have separate accounts). If possible, pay for medical expenses out of your checking account (and not the HSA) so as not to stifle the HSA's long-term tax-free growth.

7. **Convert Non-Deductible Interest To Deductible Interest**: Interest on consumer loans is not deductible. Interest on up to $100,000 of a home mortgage loan is deductible -- regardless of what the proceeds are used for. That means you could use a home equity loan to finance up to $100,000 of big-ticket consumer purchases (non-business car, child's education expenses, etc.) and deduct the interest.

8. **Make Charitable Contributions With Appreciated Long-Term Securities Instead Of Cash**: You get a charitable contribution for the full current fair market value and the long-term capital gain is ignored. If you want to retain the stock, use the cash you would have given to the charity to replace the contributed shares. That way you end up with the same number of shares, but the new shares have a higher cost and thus a lower capital gain when you eventually sell. The charity will help you with the details. This is well worth the little effort involved for contributions above, say, $1,000 each. Never donate

stock which has dropped in value. You will lose the use of a valuable capital loss. First, sell the stock, take the capital loss, and then make the donation with the sale proceeds.

9. **Make Gifts To Children Well Before December 31**: If reducing your estate makes sense and if it will help, not hurt, your child, then make gifts down to the next generation. You can give up to $14,000 per year to as many people as you choose without any negative gift or estate tax consequences. If you want to give more than $14,000 to any person, your spouse can join you by electing to have 1/2 of your gifts attributable to him or her. That allows annual gifts of up to $28,000 per recipient without eating into your lifetime estate tax exemption. If your gifts to any recipient in a year exceed $14,000, you must file a simple gift tax return (Form 709) by the due date of your 1040 personal tax return.

10. **Tuition And Medical Costs Paid To The School Or Health Care Provider Do Not Count Toward The $14,000 Annual Gift Limit**: If you pay a child's or grandchild's tuition directly to the school, the payments are exempt from gift tax and do not count against the annual exclusion amount. The same rule applies to the child's or grandchild's medical bills paid directly to the provider.

11. **If You Are Selling Stocks Or Bonds At A Gain To Pay A Child's Graduate School Costs, Give The Securities To The Child Instead**: The recipient of a gift takes over the gift-giver's tax cost and holding period. The securities can then be sold in the child's name and the gains will be taxed at the child's lower capital gains bracket, and because of the child's lower income, the child will not be subject to the additional 3.8% on investment income if sold in 2015. The child would then use the greater after-tax proceeds to pay school costs directly. The harsh Kiddie Tax now taxes students under age 24 at the parents' higher rates, so this won't work with younger children. In 2015, the adult child will have a capital gains tax rate of zero if the child is not otherwise hitting the 25% income tax bracket (AGI no higher than $37,450 if single and $74,900 if married). The gifts can also be made to recent grads to help them pay down college loans.

12. **Offset Capital Gains With Capital Losses**: Capital losses first offset capital gains for the year and any excess losses can then be used to offset up to $3,000 of ordinary income. Losses above that get carried forward to offset future years' gains plus $3,000 of ordinary income per year until the loss is used up. If, for example, you sold your practice you would likely have a large capital gain from the sale of personal goodwill, some of this gain can be sheltered by capital losses. If you want to continue owning the investment, the "wash sale" rule disallows a loss deduction if you buy the same securities within 30 days before or after the loss sale.

13. **If Your Securities Sales To Date Show A Net Loss, Sell Others At A Gain To Absorb The Available Capital Loss**: Let's say your securities sales to date this year give you a net overall loss of $15,000. Only $3,000 of this is deductible against ordinary income. Sell enough securities to generate a $12,000 gain. There is no "wash sale" rule on gains so you could immediately buy back the same securities you just sold at a gain and get a stepped-up cost basis.

14. **If You Are Buying New Equipment, Place It In Service By December 31, 2015**: The generous $500,000 179 deduction ended in 2014. The current year limit is only $25,000. Also, the generous 50% bonus depreciation rule expired in 2014. But there are still advantages to placing new equipment in service at the end of 2015. First, you will be treated as if the asset was placed in service in the middle of the year, generating a larger first year depreciation deduction. Second, if Congress does reinstate the larger 179 limits and bonus depreciation for 2015, the new purchases will qualify.

15. **Buying A Business Vehicle**: Heavy SUV's (with gross vehicle weight ratings over 6,000 pounds) bought new are eligible for up to $25,000 of first-year expensing under 179, but not currently the 50% bonus depreciation. (The big $500,000 179 deduction never applied to SUV's). Passenger vehicles and light trucks are not eligible for Section 179, but have recently enjoyed a different bonus depreciation rule. When bought new, they get an additional $8,000 of first year depreciation. To find the vehicle's GVWR, check the certification form glued on the edge of the driver's door or car frame or visit www.alphaleasing.com/businessaspects/over6000gvwr.asp. If we were contemplating a new car purchase, we would prefer to buy in 2015 than 2016. This is a calculated gamble, but if Congress reinstates bonus depreciation, the odds are higher that it will apply for 2015. It's also possible for it to be extended for both 2015 and 2016. It's unlikely that it will apply for 2016 but not 2015.

16. **You May Qualify For 0% Long-Term Capital Gains And Dividends**: If you are in the 10% or 15% income tax bracket, dividends and long-term capital gains (where the holding period is more than one year) are tax-free until they would otherwise push you into the 25% bracket (i.e., if these were instead short-term gains they are subject to the higher ordinary income rates.) For 2015, the 25% bracket starts at $74,901 of taxable income on joint returns and $37,451 on individual returns.

17. **If You Turned 70-1/2 In 2015, Start The "Required Minimum Distributions" From Your Retirement Plan(s) Or IRA(s)**: For the year you reach age 70-1/2, there is a grace period -- you can wait until April 1 of next year to make this year's distribution -- but then you would get two distributions in 2016. Since this will likely put you into a higher tax bracket in 2016, take the first distribution in 2015. If you are over age 70-1/2 and have not commenced withdrawals, review this with your plan advisor immediately. The rule permitting charitable contributions of required minimum distributions from IRAs expired in 2014. It should be reinstated for 2015. The benefit of moving the money directly to the charity is that it doesn't first hit your income and raise your AGI which can hurt in other ways. If you will be making a large donation anyway, move it from the IRA directly to the charity. If the rule is reinstated, you are home free. If not, the contribution will be treated as income, and you will then claim the charitable deduction.

18. **Use Your Credit Card For Last Minute Deductions**: If you charge it on your credit card on December 31, it's a 2015 deduction even though the credit card bill isn't paid until 2016. If you are accelerating income and postponing expenses, wait until January to make the purchase.

19. **Don't Make A Big Mutual Fund Purchase Before Its Year-End Taxable Distribution To Shareholders**: To be sure, call the mutual fund to find out the distribution "record" date, and buy the fund afterwards. Getting a taxable distribution on shares you didn't own when the gain was earned, is like missing the party but getting the hangover.

20. **Bunch Medical Expenses**: Itemized medical deductions are even harder to claim. The old 7.5%-of-income deduction threshold is now 10% (however, it remains 7.5% if either spouse is age 65 or older until the end of 2016). Bunch into one year as many medical costs as possible. For example (your orthodontist will love this) pay the entire fee up front for your child's braces. If you support a dependent by providing more than 50% of their support, you can deduct their medical costs (including long-term care insurance) you pay directly. That applies even if you cannot claim a personal exemption because your income is too high or the person (say, a parent) has income of $4,000 or more. By paying the dependent's medical bills, your money does double duty - it counts toward meeting the 50% support test and towards meeting your 10% medical deduction threshold.

21. **It Works The Same Way If You Make A Dependent's Charitable Contributions**: If you are providing more than 50% of your widowed mother's support but you cannot claim her as a dependent due to her income, you should make her charitible gifts directly. When you pay for her, you get the deduction (which is worth more in your higher bracket) and it counts in calculating your support.

22. **Be Aggressive (But Legal) With Deductions**: Newsletter readers have a major advantage over to their physican colleagues who are hospital employees – namely the ability to expense quasi-business/personal expenses through their practices. If your risk tolerance will stand it, you will be well served by (1) reporting every penny of taxable income -- no exceptions (that's the law!) and (2) deducting every expense you have any justification for taking. The odds of being audited remain low. But, if you are unlucky enough to be selected, view the audit as a contest. Expect to give back some, but not anywhere near all, of the aggressive deductions. And take comfort in knowing that all of the years of aggressive and unaudited returns will far more than make up for the relatively small check you'll write to the IRS at the end of the audit. This aggressive-but-legal approach will become more and more valuable in future years when the tax rates eventually do rise.

23. **Do Not Do Anything Foolish To Get A Deduction**: It's better to pay tax on your gains than to deduct your losses. Never pay a dollar for something you don't need just because it gets you a dollar of deduction. Stay away from investments that make no economic sense without the help of some special tax advantage (e.g., whole life insurance, variable annuities). These are almost assuredly doomed to disappoint if for no other reason than Congress has no shame in changing the tax rules mid-game.