SEIGNEUR GUSTAFSON LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Beyond the Number$

December 1, 2015

Dear Client:

Many individuals are making plans for the year-end holidays and coming new year. Not to be overlooked should be year-end tax planning. Every individual can develop a year-end tax planning strategy that reflects his or her situation.

A number of traditional year-end tax planning strategies may be helpful in maximizing tax savings, depending upon your overall tax situation anticipated for the rest of 2015 and estimated for 2016. These include:

- Coordinate capital losses against the sale of appreciated assets
- Postpone the redemption of U.S. Savings Bonds
- Delay Roth conversions until 2016
- Minimize retirement distributions
- Take advantage of like-kind exchange treatment
- Bunch itemized deductions into 2015/Standard deduction into 2016
- Accelerate bill payments into 2015
- Pay last state estimated tax installment in 2015
- Minimize AGI limitations on deductions/credits
- Watch net investment interest restrictions
- Match passive activity income and losses
- Complete installment sales that defer gain
- Make tax-free gifts of $14,000 per recipient ($28,000 for married couples)

Keep in mind, that if your taxable income is low, or if you anticipate higher income in the coming years, the opposite approach to the ideas listed above may be appropriate. Let us know how we can help you with an overall tax strategy.

Making Year-End Charitable Contributions

In order to deduct charitable contributions on your personal tax return, you must itemize deductions and your contributions must be made to "qualified" organizations. Giving money to an individual or a foreign organization generally isn't deductible, except for donations made to certain qualifying Canadian not-for-profits.

For a charitable donation of cash, regardless of the amount, you must have a bank record or a written document from the charity. Bank records include canceled checks, bank or credit union statements, and credit card statements. These statements should show the name of the charity, the date and the amount paid. Credit card statements should also show the transaction posting date.

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Clothing and household items donated to charity generally must be in good used condition or better. However, this requirement may be waived for deductions of clothing or household items of more than $500 if you include a qualified appraisal with the return. Household items include furniture, electronics, appliances and linens.

IRS substantiation rules vary depending on how much you're claiming for each contribution:

- Gifts of $250 or more (cash or property). You must obtain and keep in your records a contemporaneous written acknowledgment from the qualified organization (in other words, a receipt).
- The acknowledgment must state whether the organization provided goods or services in exchange for the gift. If so, the organization must provide a description and a good faith estimate of the value of the goods or services. One document from an organization can satisfy both the written communication requirement for monetary gifts and the contemporaneous written acknowledgment requirement for all contributions of $250 or more.
- For a deduction for a noncash contribution worth more than $500, IRS Form 8283 must be filled out and attached to your return.
- The deduction for a contribution of noncash property worth more than $5,000, unless you're giving publicly traded securities, you must obtain a qualified appraisal. (The threshold is $10,000 for non-publicly traded securities.) If you claim a deduction for a contribution of noncash property worth more than $500,000, you must attach the qualified appraisal to your return.

Net Investment Income Tax, Capital Gains/Dividends, AMT, and More

Higher-income individuals should also anticipate possible liability for the 3.8 percent net investment income (NII) tax calculated on net investment income in excess of modified adjusted gross income (MAGI). Threshold MAGI amounts for the NII tax are: $250,000 in the case of joint returns or a surviving spouse; $125,000 in the case of a married taxpayer filing a separate return; and $200,000 in any other case. If possible, keeping income below the thresholds is an avenue to explore. Spreading income out over a number of years or offsetting the income with both above-the-line and itemized deductions are possible approaches. Of course, every taxpayer's situation is different and planning for the NII tax requires a very personalized strategy.

The tax rate on net capital gain is no higher than 15% for most taxpayers. Net capital gain may be taxed at 0% for taxpayers in the 10% or 15% ordinary income tax brackets. However, a 20% rate on net capital gain applies to the extent that a taxpayer's taxable income exceeds the thresholds set for the 39.6% ordinary tax rate ($413,200 for single; $464,850 for married filing jointly or qualifying widow(er); $439,000 for head of household, and $232,425 for married filing separately).

Like the NII tax, the alternative minimum tax (AMT) also requires personalized attention. The AMT is now permanently "patched" and this has brought some certainty to AMT planning. The patch permanently increases the exemption amounts and indexes the exemption amounts for inflation. For 2015, the exemption amounts are $53,600 for single individuals and heads of household; $83,400 for married couples filing a joint return and surviving spouses; and $41,700 for married couples filing separate returns.

There are steps that taxpayers subject to AMT can take to reduce its effect on their tax liability. For instance, taxpayers can undertake to eliminate certain tax preferences. Certain deductions, including the accelerated depreciation deduction on real property, as well expensed research and development costs and expensed mining exploration and development costs, are tax preference items only to the extent that they exceed an otherwise allowable deduction. In addition, a taxpayer should avoid exercising any incentive stock options in the year in which he or she is subject to AMT.

Along with NII tax and AMT considerations, year-end planning needs to take in the possible impact of the Pease limitation (named for the member of Congress who introduced the original bill), which reduces the total amount of a higher-income taxpayer's otherwise allowable itemized deductions by three percent of the amount by which the taxpayer's adjusted gross income exceeds an applicable threshold. However, the amount of itemized deductions is not reduced by more than 80 percent. Certain items, such as medical expenses, investment interest, and casualty, theft or wagering losses, are excluded. For 2015, the Pease limitation thresholds are $309,900 for married couples and surviving spouses; $284,050 for heads of households; $258,250 for unmarried taxpayers; and $154,950 for married taxpayers filing separately. Individuals within range of the Pease limitation may want to explore the value of deferring itemized deductions or reducing adjusted gross income.

Related to the Pease limitation is the personal exemption phaseout (PEP). The threshold adjusted gross income amounts for the personal exemption phaseout (PEP) are the same as the threshold amounts for the Pease limitation. Under the phaseout, the total amount of exemptions that may be claimed by a taxpayer is reduced by two percent for each $2,500, or portion thereof (two percent for each $1,250 for married couples filing separate returns) by which the taxpayer's adjusted gross income exceeds the applicable threshold level.

Tax Legislation

As of the end of November 2015, several tax bills with far-reaching effects were pending in Congress. They include a package of tax extenders, revisions to the Affordable Care Act, and more. Lawmakers are almost certain to renew the now-expired extenders, either before year-end or early in 2016, so the incentives are available to individuals filing 2015 returns. The incentives could also be extended through 2016, which opens up more planning opportunities. For individuals, the incentives include:

- State and Local Sales Tax Deduction. Taxpayers may elect to deduct state and local sales taxes in lieu of state and local income taxes.
- Exclusion of Cancellation of Indebtedness on Principal Residence. This provision allows taxpayers to exclude from income the cancellation of mortgage debt of up $2 million on a qualified principal residence.
- Higher Education Tuition and Fees Deduction. The above-the-line higher education tuition deduction provides a maximum $4,000 deduction for qualified tuition and fees at post-secondary institutions of learning, including colleges, universities, and vocational schools, subject to income phase-outs.
- Mortgage Insurance Premiums. Mortgage insurance premiums have been allowed to be treated as qualified residence interest.
- Code Sec. 25C Credit. This nonrefundable credit is available for qualified energy efficiency improvements (building envelope components such as energy efficient doors

and windows), and residential energy property expenditures (such as energy efficient heat pumps, furnaces, central air conditioning systems and water heaters).

- Contribution of Capital Gains Real Property for Conservation. Contributions of capital gain real property for conservation purposes have been allowed to be taken against 50 percent of an individual's charitable contribution base, allowing for a larger charitable contribution amount.
- Teachers' Classroom Expense Deduction. Primary and secondary education professionals may take an above-the-line deduction for qualified unreimbursed expenses up to $250 paid during the year.
- IRA Distributions to Charity. Tax-free distributions, up to a maximum of $100,000 per taxpayer each year, from individual retirement accounts to public charities by individuals age 70½ or older, have been allowed as an alternative to reporting the income and taking an itemized deduction.

Remember: as of the date this letter was prepared, these and other extenders have not yet been renewed by Congress, but planning for their renewal is key. Planning for the extenders should take into account their relationship with permanent tax breaks, such as the Lifetime Learning Credit, the saver's credit, the child and dependent care credit, and others. Additionally, some extenders that were valuable in past years may no longer have the same impact this year or in future years.

Affordable Care Act

No year-end tax plan can ignore the Affordable Care Act (ACA). The ACA, as the past five years has shown, impacts almost every individual, starting with the requirement to have minimum essential health coverage or make a shared responsibility payment, unless exempt. On their 2014 returns filed in 2015, individuals reported if they had minimum essential coverage and that reporting requirement will again be on 2015 returns filed in 2016. Individuals who may be liable for a shared responsibility payment should carefully review the significant number of exemptions available, which cover many different circumstances. It is also possible to project the amount of any payment. Closely related are changes to the medical expense deduction, health flexible spending arrangements (and similar arrangements), insurance coverage for children, and more.

Seigneur Gustafson is pleased to announce the addition of Mark Edwards and Jonathan Hunt to our tax team. We are also excited for the return of Ann Ngan and Gemmi Holland this fall.

We hope you have a joyous holiday season ahead filled with hope, peace and good health to you and your friends and family.

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