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Dear Clients and Friends,

For most of the last decade, year-end tax planning has been complicated by a great deal of uncertainty. This year is no different. Below are just a few items that this year's taxpayers have to tend to:

The Consolidated Appropriations Act of 2016 was passed through Congress in December 2015. Shortly after, President Obama signed the bill into law, making a wide range of tax extenders permanent. This legislation makes the Research and Development (R&D) Tax Credit permanent, along with 50 other tax breaks that were scheduled for expiration.

In addition, with the presidential campaign for 2016 already heating up, several candidates have proposed significant tax reforms and tax rate changes. It remains to be seen what impact, if any, this will have on proposed tax extensions and related matters.

Finally, taxpayers must contend with a continuing stream of new cases, rulings and regulations on various issues that could affect year-end tax-planning decisions.

Keeping all that in mind, we have prepared the following **2015 Year-End Tax-Planning Letter**. For your convenience, the letter has been divided into three sections:

- Individual Tax Planning
- Business Tax Planning
- Financial Tax Planning

Be aware that the tax-planning concepts discussed in this letter are only intended to provide an overview. It is recommended that you review your situation with a tax professional.

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Itemized Deductions

If you qualify, you can claim itemized deductions on your 2015 tax return in lieu of the standard deduction. Generally, itemized deductions will provide bigger tax benefits for taxpayers, especially those in higher income tax brackets.

Tax tip: Absent special circumstances, accelerate expenses that qualify for deductions into this year to lower your 2015 tax liability. For example, you might prepay state and local income taxes to increase your current deduction.

However, under the Pease rule (named for the congressman who initially introduced the legislation), many itemized deductions—including those claimed for charitable donations, state and local taxes, and mortgage interest—are reduced by 3% of the excess above an indexed threshold amount (but not by more than 80% overall). For 2015, the thresholds are $258,250 of adjusted gross income (AGI) for single filers and $309,900 of AGI for joint filers.

If you expect your deductions to be reduced under the Pease rule in 2015, but not in 2016, you might postpone some deductible expenses to next year. Similarly, you may not want to accelerate deductions into 2015 if you expect this to be a low tax year and 2016 to be a high tax year.

Note: Certain itemized deductions must be added back in the calculation for the alternative minimum tax (see page 2). This could affect plans to accelerate deductible expenses.

Dependency Exemptions

In addition to a personal exemption for yourself (plus your spouse, if married), you may claim dependency exemptions for qualifying children and relatives. Generally, an exemption is available if you provide more than half the person's support and he or she does not have taxable income exceeding the personal exemption amount of $4,000 in 2015. However, for a qualifying child younger than age 19 or a full-time student younger than age 24, the taxable income test does not apply.

Tax tip: Ensure that you exceed the half-support mark for 2015. This might mean providing some extra support to a recently graduated child or an elderly relative. By making a generous gift this holiday season, you may be able to secure the dependency exemption.

Be aware that benefits for personal exemptions are reduced for high-income taxpayers similar to the reduction for itemized deductions. Under the personal exemption phaseout (PEP) rule, exemptions are reduced in 2015 by 2% for each $2,500 (or portion thereof) above the same AGI thresholds used for itemized deductions.

Note: For exemptions claimed for elderly relatives, the Social Security benefits received by that person count for purposes of the half-support test, but not for the test based on the relative's taxable income.

Alternative Minimum Tax

Despite favorable modifications in recent years, you still may be liable for the alternative minimum tax (AMT) in 2015. The calculation for determining AMT liability involves inclusion of technical adjustments and tax preference items, such as add-backs for certain deductions, and subtraction of an exemption amount. After comparing the AMT result to your regular tax, you effectively pay the higher of the two.

Tax tip: Have your personal situation assessed. Depending on the results, you may want to shift tax preference items or deductions to 2016 to avoid or reduce AMT liability for 2015.

The following is a table showing exemption amounts for the last five years. However, these exemption amounts are reduced for high-income taxpayers. For 2015, the reduction is equal to 25 cents for each dollar of AMT income above $158,900 for joint filers, $119,200 for single filers and $79,450 for married couples filing separately.

Filing status	2011	2012	2013	2014	2015
Joint filers	$74,450	$78,750	$80,800	$82,100	$83,400
Single filers	$48,450	$50,600	$51,900	$52,800	$53,600
Married filing separately	$37,225	$39,375	$40,400	$41,050	$41,700

There are just two AMT rates: 26% on AMT income up to $185,400 in 2015 and 28% on AMT income above that threshold. Thus, the top AMT rate is lower than the top regular income tax rate of 39.6%.

Note: If you are normally in a high tax bracket and expect to pay the AMT in 2015, but not in 2016, you might decide to accelerate taxable income into this year. Accordingly, the extra income will be taxed at the 26% or 28% AMT rate in 2015, as opposed to a higher rate in 2016.

Charitable Donations

Generally, you can deduct cash or cash-equivalent donations made to qualified charitable organizations, as long as you meet the strict substantiation requirements spelled out in the tax law. Furthermore, if you donate appreciated property held for more than one year, you can generally deduct an amount equal to the property's current fair market value (FMV). However, be aware that other limits may apply to charitable deductions.

Tax tip: Step up your charitable gift-giving at year-end. For instance, you could make an online donation late in December, charge your credit card and still write off the donation on your 2015 return—even if you do not actually pay the credit card charge until 2016.

If you are donating securities to a charity, it is often advantageous to gift assets that have appreciated in value over time. As a result, you can deduct the FMV of the securities while the appreciation remains untaxed forever.

Note: If any special restrictions on your deductions apply in 2015, such as the reduction of itemized deductions under the Pease rule (see page 1), you might postpone large charitable gifts to 2016.

Education Deductions

The tax law provides certain tax benefits to parents of children in college, but within limits. Currently, you may still deduct one of two higher-education credits, but the deduction for tuition expenses officially expired after 2014.

Tax tip: Pay qualified expenses for next semester by the end of the year. Generally, the costs will be eligible for either credit in 2015, even though the semester does not begin until 2016.

For 2015, you may claim either the American Opportunity Tax Credit (AOTC) or the Lifetime Learning Credit (LLC). The maximum AOTC is $2,500 and is available for qualified expenses paid for each student. Conversely, the maximum LLC is $2,000 and is available only on a per-family basis. Thus, the AOTC is usually preferable to parents. Both credits are subject to phaseouts based on modified adjusted gross income (MAGI).

Qualified expenses generally include tuition, related expenses (e.g., student activity fees) and books, as well as supplies and equipment if they are required to be paid directly to the school. But room and board, health insurance and certain other fees do not qualify.

Note: Previously, the allowable tuition deduction was either $4,000 or $2,000 (based on your MAGI), before being completely phased out. Congress might revive this tax break for 2015. If it is restored, you may claim either a credit or the deduction, but not both.

Miscellaneous

- Bunch medical and dental expenses in the optimal tax year. Generally, you can only deduct expenses in excess of 10% of your AGI in 2015 (7.5% of AGI if you are age 65 or older). Depending on your situation, you might accelerate elective expenses, such as physical examinations and dental cleanings, into 2015 or postpone them to 2016 if you have a better chance at a deduction next year.

- In some cases, you may consolidate outstanding personal debts into a home equity debt. Interest on personal debts is not tax-deductible, but you can deduct mortgage interest paid on the first $100,000 of home equity debt in most states, no matter how the proceeds are used. To qualify, the debt must be secured by your home.

- Miscellaneous expenses, including unreimbursed employee business expenses, are deductible only in excess of 2% of AGI. As with medical and dental expenses, you might arrange to pay qualified expenses (e.g., tax assistance fees) before 2016 to increase your deduction for 2015.

- If Congress reinstates a tax break for state and local sales taxes, you may deduct an annual amount (based on an IRS table or actual receipts) in lieu of deducting state and local income taxes. Monitor new developments to see how year-end purchases might benefit your family.

- You may be liable for an estimated tax penalty if you fail to pay required tax through any combination of withholding or quarterly installments. But you can avoid the penalty by paying enough to satisfy a "safe harbor" of 90% of current tax liability or 100% of the previous year's tax liability (110% if your AGI was above $150,000).

Section 179 Deductions

Under Section 179 of the tax code, a business may currently deduct, or "expense," the cost of qualified property placed in service during the year, up to a maximum amount. The maximum deduction is phased out on a dollar-for-dollar basis for amounts above an annual threshold.

The Section 179 provision sets a new threshold for small business expensing limitation. This new threshold is set at $500,000 for qualifying asset purchases up to $2 million, which is increased from the current amounts of $25,000 for purchases up to $200,000 respectively.

Tax tip: Take advantage of this tax break up to the maximum allowance for 2015. If you need to acquire additional business property, be aware that these amounts are then generally subject to the regular depreciation rules.

The table below lists the maximum Section 179 allowance for recent years.

Tax year	Deduction limit	Phaseout threshold
2007	$125,000	$500,000
2008–2009	$250,000	$800,000
2010–2014	$500,000	$2 million
2015	$25,000	$200,000

Note: The 50% bonus depreciation deduction also generally expired after 2014. This tax break, which is often claimed in conjunction with the Section 179 deduction, may also be revived by Congress.

Repairs vs. Improvements

While expenses spent on making repairs are currently deductible, the cost of improvements to business property must be capitalized. The IRS recently issued detailed capitalization regulations that clarify the distinctions between repairs and improvements.

Tax tip: When appropriate, complete minor repairs before the end of the year. The deductions can offset the taxable income of your business in 2015.

As a rule of thumb, a repair keeps property in efficient operating condition while an improvement prolongs the life of the property, enhances its value or adapts it to a different use. For example, fixing a broken window is a repair, but the addition of an entire new wing to a business building is generally treated as an improvement.

Note: The capitalization regulations allow a qualified business to make a safe harbor election with regard to certain improvements. In effect, this may enable you to take a current deduction for amounts above the maximum Section 179 deduction. Contact your professional tax adviser for details.

Small Employer Health Insurance Credit

Under the Affordable Care Act (ACA), the massive health care legislation enacted in 2010, a qualified small business is eligible for a credit if it pays for health insurance coverage for its employees. To qualify, the business must have 25 or fewer full-time employees (FTEs) with average annual wages of less than $51,600 in 2015. The credit is reduced if either of these two limits is exceeded.

Tax tip: Carefully observe the limits for claiming the credit. Be aware that sole proprietors, partners in a partnership, 2%-or-more owners of S corporations and 5%-or-more business owners, as well as their family members, do not count as FTEs for this purpose. This rule may give your business more flexibility.

For 2015, the credit is equal to 50% of the nonelective contributions made on behalf of employees. Prior to 2014, it was limited to 35% of those contributions.

Note: To qualify for the credit in 2015, an employer must obtain health insurance through the Small Business Health Options Program (SHOP).

Business Start-up Costs

The tax law allows a small-business owner to claim a first-year deduction of up to $5,000 for qualified start-up costs. Any remaining expenses that qualify must be amortized over 180 months. However, the $5,000 write-off is phased out on a dollar-for-dollar basis for start-up costs exceeding $50,000.

Tax tip: Make sure that you are officially open for business before the end of the year. Otherwise, you will not be entitled to the current $5,000 deduction in 2015. The actual event that triggers an opening will vary according to the type of business you are operating and the particular circumstances.

Generally, start-up costs are expenses that would normally be deductible as business expenses. This includes investigatory expenses such as the following:

- an analysis or survey of potential markets, products, labor supply, transportation facilities, etc.
- advertisements for the opening of the business
- salaries and wages for employees who are being trained and their instructors
- travel and other necessary costs for securing prospective distributors, suppliers, or customers or clients
- salaries and fees for executives and consultants or for similar professional services

Note: Previously, you had to make a proactive election to currently deduct start-up costs. But this tax treatment is now automatic. All you have to do is ensure that your 2015 tax return is filed in a timely fashion.

Business Bad Debts

In the current economic environment, your business may have difficulty collecting payments for certain goods or services it has provided. At the very least, the business should be able to salvage some tax relief on its 2015 tax return.

Tax tip: Increase collection efforts at the end of the year. For instance, you may issue a series of dunning letters to debtors asking for payment. If you are still unable to collect the unpaid amount, you can generally write off the debt as a business bad debt.

Generally, business bad debts are deducted from taxable income in the year they become worthless. To qualify as a business bad debt, a loan or advance must have been created or acquired in connection with your business operation and result in a loss to the business entity if it cannot be repaid.

Note: Keep detailed records of all your collection activities—including letters, telephone calls, e-mails and collection agency work—in your files. This documentation can help support your position claiming worthlessness of the debt if the IRS ever challenges the bad-debt deduction claimed on your 2015 return.

Miscellaneous

- Purchase routine business supplies before the end of the year. As a general rule, your company can deduct the costs in 2015, even if the supplies are not used until 2016.
- Losses claimed by S corporation shareholders are limited to the basis in the stock plus outstanding debt. Thus, you might make a capital contribution or loan money to the corporation before year-end to increase your basis for loss-deduction purposes.
- A company may deduct 100% of business travel costs and 50% of entertainment and meal expenses. To increase your current deduction, accelerate trips planned for 2016 into 2015. Note that a company can deduct 100% of the cost of a holiday party as long as the entire workforce is invited.
- If you buy a heavy-duty SUV or van for business, you may be able to claim a first-year deduction of up to $25,000. The usual luxury car limits do not apply to certain heavy-duty vehicles.
- If you qualify for home-office deductions, you may write off the full amount of direct expenses plus indirect expenses based on the percentage of business use of the home. The IRS recently approved use of an alternative simplified home-office deduction, capped at $1,500.
- An accrual-basis company operating on a calendar-year basis may deduct bonuses in 2015 if it pays them within 2½ months of the close of the tax year (but not bonuses for certain business owners). Conversely, employees are not taxed on the bonuses until 2016, when they are received.
- Provide health insurance coverage if mandated by the ACA. Effective January 1, 2016, certain midsize employers face tax penalties if they do not provide minimum essential coverage. This mandate already applies to large employers in 2015.
- The R&D Tax Credit makes certain small businesses eligible to claim credits against the alternative minimum tax liability or against the employer’s payroll tax liability.

Capital Gains and Losses

The tax law requires capital gains and losses to be netted and then offset each other. Any excess loss may offset up to $3,000 of ordinary income before it is carried over to the next year. A net long-term capital gain is generally taxed at a maximum rate of 15%, but the rate is 20% for those in the top ordinary income tax bracket. Short-term capital gains are taxed at ordinary income rates.

Tax tip: Traditionally, investors look to harvest capital losses from securities at year-end to offset gains realized earlier in the year. Conversely, if you are showing a net capital loss, you might harvest capital gains that will be absorbed by prior losses.

In recent years, there has been an increased focus on harvesting capital gains. Significantly, a 0% capital gains tax rate applies to taxpayers in the lowest two regular income tax brackets of 10% and 15%. Even if your capital gains push you into a higher tax bracket, you still benefit from the 0% rate on the portion of the gains up to the top of the income threshold for the 15% tax bracket.

Note: Other special rules may apply to capital gains and losses. For example, losses from passive investment activities may be limited. Also, the "wash sale rule" prohibits investors from claiming certain losses (see page 9).

Net Investment Income Surtax

An additional 3.8% surtax applies to the lesser of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes interest, dividends, capital gains and income from passive activities, but not other items such as Social Security benefits, tax-exempt interest and distributions from qualified retirement plans and individual retirement accounts (IRAs).

Tax tip: Reduce your exposure to the NII surtax. For instance, depending on your situation, you might use one or more of the following techniques:

- Add municipal bonds (munis) to your portfolio. Interest income from munis does not count as NII, nor is it included in the MAGI calculation.
- Establish a charitable remainder trust (CRT). With a CRT, you qualify for a current tax deduction while the income is sheltered from the surtax.
- Become active in a passive activity. For example, if you own a business and meet the tax law requirements for material participation, the business income may be exempted from the surtax.
- Consider an investment in a tax-deferred annuity that leapfrogs your highest-earning years when the 3.8% surtax is likely to apply.

Note: Of course, these decisions should not be made in a vacuum. Coordinate tax-saving strategies with other aspects of your financial plan.

Roth IRA Conversions

There are two main types of IRAs: Traditional IRAs and Roth IRAs. Although contributions to traditional IRAs may be tax-deductible, deductions are phased out for active participants in employer-sponsored retirement plans. Future distributions are taxed at ordinary income rates.

Conversely, Roth IRA contributions are never tax deductible, but qualified distributions from a Roth IRA at least five years old are 100% tax-free. Taxation of other distributions is based on special ordering rules.

Tax tip: Weigh the benefits of converting some or all of the funds in your traditional IRAs into a Roth. The transfer is currently taxable, but can provide future tax-free benefits. This could be especially important if you expect to be in a higher tax bracket in your retirement years.

Be aware that a Roth IRA conversion increases your MAGI for purposes of the NII surtax (see page 7). Therefore, to reduce your overall tax liability, you might initiate a series of Roth IRA conversions over several years instead of converting all the funds this year.

Note: The conversion tax is based on the value of the assets on the date they are transferred to the Roth IRA. If the value declines substantially after conversion, you have until the tax return due date for 2015, plus extensions, to recharacterize a Roth back into a traditional IRA.

Required Minimum Distributions

As a general rule, you must receive required minimum distributions (RMDs) from qualified retirement plans and IRAs after attaining age 70½. The amount of the distribution is based on life expectancy tables provided by the IRS.

Tax tip: Arrange to receive the necessary RMDs before the end of the year. Otherwise, you must pay a harsh penalty equal to 50% of the required amount (less any amount you have received), in addition to the regular tax liability.

However, be aware of this special exception: If you are still working and not a 5%-or-more owner of a business you are employed by, you can postpone RMDs from the employer's qualified plan until you actually retire. This rule does not apply to RMDs from IRAs or plans of other employers.

Note: RMDs are not treated as NII for purposes of the 3.8% surtax. Nevertheless, an RMD may still increase your MAGI used in the surtax calculation.

Estate and Gift Taxes

Legislation enacted in 2001 gradually increased the estate-tax exemption, severing it from the lifetime gift exemption, and reduced the top estate-tax rate. Then the estate tax was repealed for just one year—in 2010—before it was reinstated. Currently, as shown by the following table, the tax law provides a reunified estate- and gift-tax exemption of $5 million (indexed to $5.43 million in 2015) and a top 40% estate-tax rate.

Tax Year	Maximum estate-tax exemption	Top estate-tax rate
2002	$1 million	50%
2003	$1 million	49%
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2 million	46%
2007–2008	$2 million	45%
2009	$3.5 million	45%
2010	Not applicable	Repealed
2011	$5 million	35%
2012	$5.12 million	35%
2013	$5.25 million	40%
2014	$5.34 million	40%
2015	$5.43 million	40%

Tax tip: Update your estate plan to reflect current law. For instance, wills and trusts may be revised to accommodate the rule allowing portability of the estate-tax exemption.

Under the portability provision for a married couple, the unused portion of the estate-tax exemption of the first spouse to die may be carried over to the estate of the surviving spouse. This tax break is now a permanent part of the tax code.

Note: The annual gift-tax exclusion allows you to give up to $14,000 per recipient in 2015 ($28,000 for joint gifts by a married couple) without any gift tax, thereby reducing your taxable estate.

Miscellaneous

- Sell property such as real estate on the installment basis. If payments are received over two years or more, you can defer tax until payment is received. In addition, by dividing payment among several years, you may effectively reduce the tax owed on a sale.

- Under the "wash sale rule," you cannot deduct a loss on securities sales if you acquire substantially identical securities within 30 days. The simplest way to avoid this result is to wait at least 31 days before you repurchase the same or similar securities.

- It is often beneficial tax-wise to sell mutual fund shares before the fund declares dividends (the ex-dividend date) and buy shares after the date the fund declares dividends.

- Contribute up to $18,000 to a 401(k) in 2015 ($24,000 if age 50 or older). If you clear the 2015 Social Security wage base of $118,500 and then allocate the payroll tax savings to the 401(k), you can increase your deferral with no further reduction in your take-home pay.

- Consider investments in dividend-paying stocks. Similar to net long-term capital gains, the maximum tax rate on qualified dividends received in 2015 is generally 15%, or 20% for certain high-income taxpayers, while lower-income taxpayers may benefit from a 0% rate.

CONCLUSION

This year-end tax-planning letter is based on the prevailing federal tax laws, rules and regulations. Of course, it is subject to change, especially if major tax-reform provisions are enacted before the end of the year.

Finally, remember that this letter is intended to serve only as a general guideline. Your personal circumstances will likely require a careful examination. We will be glad to schedule a meeting with you to provide assistance with all your tax-planning needs.

Very truly yours,

LCS&Z, LLP