Yearend Tax-Planning Season Is Upon Us

By JoAnne McIntosh

Many of you are looking forward to the end of year holidays—Thanksgiving, Christmas and spending time with friends and family. The arrival of November and December also mean it's time to start thinking of end-of-year tax and gift planning.

Here are some tips to make this planning season as productive as possible:

- **Watch the news for late-breaking tax developments**. The Senate Finance Committee has voted to extend the tax cuts enacted in 2001 and 2003; however, Congress may not address this possible legislation until later this year. Some of these expired deductions include the provisions affecting charitable contributions of an IRA, which may impact end-of-year gifting strategies.

- **Plan for carryover of your health flexible spending account (FSA).** The IRS modified the "use it or lose it" policy in 2014, so that your employer may either (a) allow employees to carry over up to $500 of unused funds in a health FSA account OR (b) allow an extension, or grace period, of 2½ months to use the remaining FSA money before losing it. Make yourself aware of your employer's policy before the end of the year to avoid losing money left in your account.

- **Contribute to your employer's 401(k) plan**. You may elect to contribute up to $18,000 this year before taxes to your employer's 401K plan. The additional catch-up contribution for employees who are age 50 and above is $6,000. Refer to your employer's plan to confirm that the catch-up contribution is permitted. If you can't afford that much, try to contribute at least the amount that will be matched by employer contributions. The IRA contribution limit was not raised in 2015. It is still $5,500, with an additional $1,000 contribution allowed for people 50 years of age or older.

- **Know what you need to know about the IRA rollover limitation**. There is one very important IRA change this year. As of 2015, you may make only one IRA-to-IRA rollover per year. Any attempted rollover after the first one will be treated as a withdrawal and taxed at regular rates with a potential 10 percent early withdrawal penalty.

- **Check IRA distributions**. You must start making regular minimum distributions from your traditional IRA by the April 1 following the year in which you reach age 70½. Failing to take out enough triggers one of the most draconian of all IRS penalties: A 50 percent excise tax on the amount you should have withdrawn based on your age, your life expectancy and the amount in the account at the beginning of the year. Annual withdrawals must be made by December 31 to avoid the penalty. When you make withdrawals, consider asking your IRA custodian to withhold tax from the payment. Withholding is voluntary and you set the amount, but opting for withholding lets you avoid the hassle of making quarterly estimated tax payments.

- **Defer income and accelerate deductions.** If you itemize deductions, consider prepaying some of your 2016 tax-deductible expenses in 2015. Also, if your total itemized deductions are near the standard deduction amount, grouping these deductions in alternating years is often an effective tax-planning strategy. You can prepay or defer these potential itemized deductions, such as property taxes or charitable contributions, especially if you may be subject to a phase-out of your itemized deductions when your adjusted gross income exceeds a threshold amount. You will itemize in one year (with double deductions) and take a standard deduction in alternating years.

- **Watch for any potential alternative minimum tax issues.** Before deciding to accelerate deductions or defer income, you need to gauge the possible effect of the alternative minimum tax (AMT) on your tax planning strategies. You must pay the AMT if your AMT liability exceeds your regular tax liability. This occurs because AMT preference items, such as the property tax deduction, are not deductible for AMT purposes. Individuals can use planning strategies to help mitigate the AMT tax burden. You will need to pay close attention to the income your investments are earning so you're not caught off guard. For example, tax-exempt interest from certain private-activity municipal bonds can trigger or increase the AMT in some situations.

- **Contribute to qualified charities**. You can only deduct gifts you give to qualified charities. The IRS maintains an on-line tool that simplifies the search for organizations that meet the criteria. (https://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check) It should be noted that churches are not on this list as they are automatically exempt. You can only deduct contributions in the year you make them; however, if you charge your gift to a credit card before the end of the year it will count for 2015. This is true even if you don't pay the credit card bill until 2016. Also, a check will count for 2015 as long as you mail it in 2015. Please note that the charity must provide you with a written disclosure statement (for contributions in excess of $75), which provides a good-faith estimate of the gift and states that the gift is limited to the excess of any money contributed by the donor over the value of goods or services provided by the charity. This statement can be especially important with charity auction items.

For more information, please visit http://covenant.org/donate/foundation/ or contact Duane Dube or any Trustee; Elizabeth Christian, Everard Davenport, Dianne Erlewine, Larry Faulkner, JoAnne McIntosh, Megan Poore, and Tana Taylor

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One generation will commend your works to another… Psalm 145:4

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