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Year-End Tax Planning and 2015 Changes

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Year End Planning

As 2014 draws to a close, it is time to focus on year end strategies to lessen the income tax or transfer tax bite. This year was the first year that the impact of the 3.8% Medicare tax was felt by taxpayers. As a consequence, income tax planning has taken on an even greater meaning for many of our clients. Below are some strategies and tax tips for you to consider:

1. **Income Tax Planning with Trusts.** As mentioned above, recent tax law changes have increased the top income tax bracket to 39.6%, the top capital gains rate to 20% and enacted a 3.8% Medicare investment tax for taxpayers in the highest income tax brackets. The highest income tax brackets apply to income in excess of $406,750 for individual taxpayers and $457,600 for married taxpayers filing jointly. Unlike individual taxpayers, trusts are taxed at the highest brackets and subject to the Medicare investment tax on income over just $12,150. Trust distributions to a beneficiary generally carry out taxable income to that beneficiary as well. Such distributions may reduce the overall tax burden if the beneficiary is not in the highest income tax bracket himself or herself. However, you should always consider the non tax ramifications of making any trust distribution before doing so.
2. **Charitable IRA Rollovers.** The 2006 Pension Protection Act enabled taxpayers who are over age 70 1/2 to make tax-free distributions of up to $100,000 per year from an IRA to a qualified charitable organization. This provision was originally set to expire on December 31, 2007 but has been extended on many occasions—most recently through December 31, 2013. While legislation was introduced to extend this provision through December 31, 2014, it was not extended. At the time of this writing, the charitable IRA rollover is not permitted in 2014.
3. **Utilize Annual Exclusions.** Making annual exclusion gifts each year is a way to transfer wealth without reducing your lifetime gift and estate tax exemption. The current annual gift tax exemption is $14,000. You are able to gift up to that amount to as many people each year as you would like. For example, you could gift up to $14,000 to each of your children. If you are married, each spouse is able to use his or her own annual exclusion

amount, enabling the spouses to make total gifts to each child of $28,000.

2015 Changes

1. **Gift and Estate Lifetime Exemption.** The gift and estate tax lifetime exemption of $5 million was made permanent in 2012 and is now indexed each year for inflation. That exemption amount increases to $5.43 million in 2015, up from $5.34 million in 2014.
2. **Annual Exclusion.** The gift tax annual exclusion is also indexed each year for inflation and increases in $1,000 increments. That exclusion will remain at $14,000 for 2015.
3. **Retirement Savings.** The maximum contribution to a 401(k) Plan will increase to $18,000 in 2015 for taxpayers under age 50, and to $24,000 for those over age 50. The maximum contribution to an IRA will remain at $5,500 in 2015 for taxpayers under age 50, and $6,500 for those over age 50. After the most recent election, even more tax reforms will likely be discussed. With constantly changing tax laws, it is as important as ever to make sure that your estate plan and beneficiary designations are up to date. Please contact your Reinhart attorney or a Reinhart Trusts and Estates attorney to discuss any of these topics in more detail.