Rockland County Estate Planning Council – May 13, 2016
How to put more money in your pocket

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The agenda

- Tax planning basics
- Tax considerations with IRA distributions
- Tax considerations with ROTH Conversions
- Tax management

Timing income and deductions to your tax advantage

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2016 individual income tax rates

Tax rate	Regular tax brackets			
	Single	Head of Household	Married filing jointly or surviving spouse	Married filing separately
10%	$ 0 - $ 9,275	$ 0 - $ 13,250	$ 0 - $ 18,550	$ 0 - $ 9,275
15%	$ 9,275 - $ 37,650	$ 13,250 - $ 50,400	$ 18,550 - $ 75,300	$ 9,275 - $ 37,650
25%	$ 37,650 - $ 91,150	$ 50,400 - $ 130,150	$ 75,300 - $ 151,900	$ 37,650 - $ 75,950
28%	$ 91,150 - $ 190,150	$ 130,150 - $ 210,800	$ 151,900 - $ 231,450	$ 75,950 - $ 115,725
33%	$ 190,150 - $ 413,350	$ 210,800 - $ 413,350	$ 231,450 - $ 413,350	$ 115,725 - $ 206,675
35%	$ 413,350 - $ 415,050	$ 413,350 - $ 441,000	$ 413,350 - $ 466,950	$ 206,675 - $ 233,475
39.6%	Over $ 415,050	Over $ 441,000	Over $ 466,950	Over $ 233,475

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AMT rates and exemptions

- Separate tax system that limits or disallows certain deductions and treats certain income items differently
- Top AMT rate of 28% vs. top regular rate of 39.6%

Tax rate	AMT brackets															
	Single				Head of Household				Married filing jointly or surviving spouse				Married filing separately			
26%	$	0	-	$ 186,300	$	0	-	$ 186,300	$	0	-	$ 186,300	$	0	-	$ 93,150
28%		Over		$ 186,300		Over		$ 186,300		Over		$ 186,300		Over		$ 93,150
Tax rate	**AMT exemptions**															
	Single				Head of Household				Married filing jointly or surviving spouse				Married filing separately			
Amount				$ 53,900				$ 53,900				$ 83,800				$ 41,900
Phaseout[1]	$	119,700	-	$ 333,600	$	119,700	-	$ 333,600	$	159,700	-	$ 492,500	$	79,850	-	$ 246,250

[1] The AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.
***Note**: Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax."*

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Avoiding or reducing AMT

- Triggers
  - State and local income tax deductions and property tax deductions
  - Deductions for interest on home equity debt not used to improve your principal residence
  - Miscellaneous itemized deductions subject to 2% of adjusted gross income floor
  - Long-term capital gains and dividend income
  - Accelerated depreciation adjustments and related gain or loss differences when assets are sold
  - Tax-exempt interest on certain private-activity municipal bonds
  - Incentive stock option (ISO) exercises
- Timing income and deductions can allow you to:
  - Avoid the AMT
  - Reduce its impact
  - Take advantage of its lower maximum rate

If you could be subject to the AMT *this* year:

- Accelerate income into 2016
  - May allow you to benefit from the lower maximum AMT rate
- Defer expenses you can’t deduct for AMT purposes
  - May allow you to preserve those deductions
- Defer expenses you can deduct for AMT purposes
  - Deductions may become more valuable because of the higher maximum regular tax rate

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If you could be subject to the AMT *next* year:

- Defer income into 2017
  - May allow you to pay a relatively lower AMT rate
- Prepay expenses that will be deductible in 2016, but that won't help you in 2017 because they're not deductible for AMT purposes
- Sell private-activity municipal bonds whose interest could be subject to the AMT

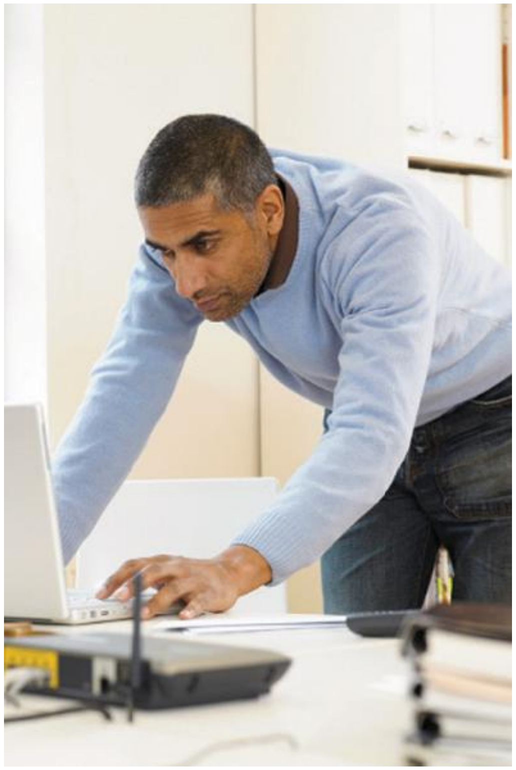
The AMT credit

If you pay AMT in one year on deferral items,
you may be entitled to a credit in a subsequent year.

In effect, this takes into account timing
differences that reverse in later years.

Timing income and expenses

- If you don’t expect to be subject to the AMT in 2016 or 2017:
  - Defer income to 2017
  - Accelerate deductible expenses into 2016
- If you expect to be in a higher tax bracket in 2017 — or if you expect tax rates to go up:
  - The opposite approach may be beneficial



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What you may be able to time

- Income items
  - Bonuses
  - Consulting or other self-employment income
  - U.S. Treasury bill income
  - Retirement plan distributions, to the extent they:
    - Won't be subject to early withdrawal penalties
    - Aren't required
- Deductible expenses
  - State and local income taxes and property taxes
  - Mortgage interest and margin interest
  - Charitable contributions

WARNING: Prepaid expenses can generally be deducted only in the year to which they apply.

Taxation of Social Security Benefits

- Up to 85% of social security benefits may be taxable income
- Tax exempt interest is included in income for the purpose of determining taxable social security benefits
- Separate calculations are required to determine the taxable portion
- As income increases the portion of social security benefits that are taxable may also increase

Limit on itemized deductions

- Reduces certain deductions by 3% of adjusted gross income (AGI) amount that exceeds applicable threshold
  - Doesn't apply to deductions for medical expenses, investment interest, or casualty, theft or wagering losses
- 2016 AGI thresholds for triggering the reduction
  - $259,400 for singles
  - $285,350 for heads of households
  - $311,300 for married filing jointly
  - $155,650 for married filing separately
- See if you can reduce AGI to stay under the threshold
- If not, consider the reduction's impact before timing expenses

Miscellaneous itemized deductions

- Many expenses are deductible only to the extent they exceed 2% of AGI
  - Deductible investment expenses, including advisory fees, custodial fees and publications
  - Professional fees, such as tax planning and preparation, accounting, and certain legal fees
  - Unreimbursed employee business expenses, including travel, meals, entertainment and vehicle costs
- “Bunching” expenses may allow you to exceed the 2% floor

WARNING: Don’t bunch miscellaneous itemized deductions subject to the 2% floor into a year when you may be subject to the AMT.

Health-care-related breaks

- If medical expenses exceed 10% of AGI, you can deduct the excess amount
  - 7.5% floor for taxpayers age 65 and older
- Eligible expenses may include:
  - Health insurance premiums
  - Long-term care insurance premiums (limits apply)
  - Medical and dental services
  - Prescription drugs
  - Mileage (19 cents per mile driven for health care purposes in 2016)
- Consider bunching nonurgent medical procedures into one year to exceed the floor
- Expenses that are reimbursable by insurance or paid through a tax-advantaged account aren't deductible

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Health Savings Accounts (HSAs)

- HSAs allow pretax or deductible contributions
  - $3,350 for self-only coverage in 2016
  - $6,750 for family coverage in 2016
  - Additional $1,000 for those age 55 or older
- To be eligible, you must be covered by qualified high-deductible health insurance
- Can bear interest or be invested
- Can grow tax-deferred similar to an IRA
- Withdrawals for qualified medical expenses are tax-free
- Carry over balances from year to year

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The net investment income tax (NIIT)

- Applies to the lesser of net investment income or the amount by which modified adjusted gross income (MAGI) exceeds these thresholds:
  - $200,000 for singles and heads of households
  - $250,000 for married filing jointly
  - $125,000 for married filing separately
- Strategies that can help save or defer income tax on investments can also help avoid or defer NIIT liability
- Strategies that reduce MAGI may allow you to avoid or reduce the tax

Timing strategies

- Appreciating investments that don't generate current income aren't taxed until sold, so holding on to them:
  - Defers tax
  - Possibly allows you to time sale to your advantage
- If you've cashed in big gains:
  - Look for unrealized losses in your portfolio
  - Sell them to offset gains

WARNING: Substantial net long-term capital gains can trigger the alternative minimum tax (AMT).

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Loss carryovers

- Deduct up to $3,000 of losses against ordinary income
  - $1,500 for married taxpayers filing separately
- Carry forward excess losses indefinitely
- Loss carryovers can be a tax-saving tool in future years
- Remember that capital gains distributions from mutual funds also can absorb losses

The 0% rate

- Applies to long-term gain that would be taxed at 10% or 15% based on the taxpayer's ordinary-income rate
- If you have adult children in these tax brackets, consider transferring appreciated assets to them
  - They can enjoy the 0% rate
  - Even more powerful strategy if you'd be subject to the 3.8% NIIT or the 20% long-term capital gains rate

WARNING: If the child will be under age 24 on Dec. 31, make sure he or she won't be subject to the "kiddie tax."

Paying attention to details

- Trade date, not the settlement date, of publicly traded securities determines the year in which you recognize the gain or loss
- Be sure to specifically identify which block of shares is being sold if you:
  - Bought the same security at different times and prices and
  - Want to sell high-tax-basis shares to reduce gain or increase a loss and offset other gains

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TAX CONSIDERATIONS WITH IRA DISTRIBUTIONS

Keep taxes from chipping away at income

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Tax Considerations with IRA Distributions

- IRA Distributions – Timing and Amount
  - Required Minimum Distribution (RMD)
  - Distributions in Excess of RMDs

  - Impact on Taxation of Social Security Benefits
  - Impact on Net Investment Income Tax
  - AMT Considerations
  - State income tax considerations

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Keep taxes from chipping away at income

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Tax Considerations with ROTH Conversions

- Amount to Convert
  - Impact on Taxability of Social Security Benefits
  - Impact on Net Investment Income Tax
  - AMT Considerations
  - Loss of Investment Opportunities due to Funding of Tax Liability
  - State income tax considerations

Keep taxes from chipping away at income

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Tax Management

- Efficient Use of Tax Brackets
- AMT Considerations – subject to vs not subject to
- Importance of Tax Planning

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Questions

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Thank you for attending

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