2015 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

With the end of the year approaching, it's time to once again review year-end tax planning strategies that could reduce your 2015 taxes. Year-end planning is particularly challenging this year because a host of popular ***individual tax breaks expired at the end of 2014.*** In previous years, Congress has retroactively extended the vast majority of these temporary tax breaks after they expired. However, ***as we complete this letter,*** Congress has not yet extended these tax provisions. **Planning Alert!** It is worth noting that these tax breaks previously expired at the end of 2013, however last year's legislation that retroactively extended the provisions through the end of 2014 ***was not signed into law until December 19, 2014.*** So, don't be surprised if it is mid-December before Congress gets around to voting on legislation to extend these tax provisions. We closely monitor Congressional tax legislation, so ***please call our firm*** if you need a ***status report.*** **Tax Tip!** Due to the uncertainty of the status of these expired tax provisions, we believe the best approach for year-end planning is to be ***prepared to act quickly near the end of 2015*** in case Congress retroactively restores these expired tax breaks. Consequently, the first segment of this letter highlights the expired individual tax breaks that could be retroactively extended.

Although the prospect of Congress extending these expired tax breaks beyond 2014 is not totally certain, there are many *traditional* year-end tax planning strategies that can help lower your 2015 taxable income, and postpone the payment of your taxes to later years. Therefore, we are sending you this letter to remind you of these time-tested, year-end planning strategies. This letter also highlights *new* tax planning opportunities available to individuals because of recent law changes. **Tax Tip.** Many tax provisions impacting your 2015 income tax liability are affected by your adjusted gross income, modified adjusted gross income, or taxable income. We ***highlight prominently*** in this newsletter the various ***income thresholds that may affect your tax liability.***

To help you locate items of interest, we have divided the planning ideas into the following topics:

- STATUS OF IMPORTANT INDIVIDUAL TAX BREAKS THAT EXPIRED AFTER 2014
- RECENT TAX LEGISLATION – SELECTED PROVISIONS
- DON'T OVERLOOK "AFFORDABLE CARE ACT" TAX CONSIDERATIONS
- TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES
- TAX PLANNING FOR INVESTMENT INCOME

Caution! Tax planning strategies suggested in this letter may subject you to the alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, the AMT can be triggered by taking large capital gains, having high levels of dividend income, or exercising incentive stock options. Therefore, ***we suggest that you call our firm before implementing any tax planning technique discussed in this letter.*** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. ***State income tax issues are not addressed.***

STATUS OF IMPORTANT INDIVIDUAL TAX BREAKS THAT EXPIRED AFTER 2014

Summary Of Selected Individual Tax Breaks That Expired *After 2014.* There is an ever-expanding list of temporary tax breaks that expire every few years. However, even though Congress often waits until the last minute, it has *historically* extended most of the more popular provisions. Unfortunately, Congress has yet to extend a host of tax breaks that ***expired at the end of 2014,*** including: School Teachers' Deduction (Up to $250) For Certain School Supplies; Deduction For State And Local Sales Taxes; Deduction (Up to $4,000) For Qualified Higher Education Expenses; Qualifying Tax-Free Transfers Directly From IRAs To Charities For Those Who Are Age 70½ Or Older; Increased Charitable Deduction Limits For Qualifying Conservation Easements; $500 Credit For Qualified Energy-Efficient Home Improvements; Deduction For Qualified Home Mortgage Insurance Premiums; Income Exclusion For Principal Residence Mortgage Cancellations; and Temporary 100% Exclusion Of Gain From Sale Of "Qualified Small Business Stock." **Caution!** Although Congress is currently considering "extenders" legislation that would extend most, if not all, of these provisions at least through 2015, as we complete this letter, Congress has not yet extended these tax breaks. Don't be surprised if Congress doesn't get around to passing an extenders bill until this December. Consequently, you should be ***prepared to act quickly near the end of 2015*** in case Congress passes an "extender's bill" late in the year.

Planning Alert! Several of the above-listed tax breaks warrant special attention, including: Qualifying Tax-Free ***Transfers Directly From IRAs To Charities*** For Those Who Are Age 70½ Or Older, and the optional ***Deduction For State And Local Sales Taxes.*** Most observers believe that Congress will eventually extend these provisions at least through 2015. This prediction is based, in part, on proposed legislation currently being considered by the House and the Senate. Later in this letter we discuss year-end planning strategies using these two tax breaks that could save you taxes – assuming they are ultimately extended through 2015. ***Please note*** that we monitor proposed legislation closely, so ***please call our firm*** if you need a ***status report.***

RECENT TAX LEGISLATION – SELECTED PROVISIONS

Over the last twelve months, President Obama has signed into law four separate bills – each containing a number of important tax provisions (*Recent Tax Legislation*). Collectively, this *Recent Tax Legislation* contained a variety of tax changes that could impact individual taxpayers. However, we believe the following two provisions deserve special attention:

Claiming The Foreign Earned Income Exclusion Will Nix The Refundable Portion Of The Child Credit. Generally, an individual is allowed a child credit of up to $1,000 for each qualifying child who has not attained age 17 by the close of the calendar year. The child tax credit claimed for a tax year is reduced $50 for each $1,000 of modified AGI over $110,000 (if married filing jointly), over $75,000 (for unmarried individuals), and over $55,000 (for married individuals filing separate returns). Moreover, this child credit is generally "refundable" to the extent of 15% of an individual's earned income in excess of $3,000 for 2009 through 2017. This generally means that, to the extent the credit exceeds the taxes on your individual income tax return without the credit, the IRS will actually send you a check for the excess.

Effective for tax years beginning after 2014, *Recent Tax Legislation* now provides that taxpayers who "elect" to exclude "any amount" of foreign earned income under §911 will not be allowed to treat any portion of the child credit as a "refundable" credit. Under §911, a U.S. citizen or resident who lives abroad and satisfies certain requirements may "elect" to exclude from taxable income up to $100,800 (for 2015) of "foreign earned income." Thus, under the new law, if a taxpayer "elects" to take any foreign earned income exclusion, the individual will only benefit from the otherwise qualifying child credit to the extent the taxpayer has sufficient tax liability to absorb the credit. This means that, starting with the 2015 tax year, if you qualify for both the foreign earned income exclusion and the child credit, we should consider a "with" and "without" calculation to see if electing the foreign earned income exclusion will save you overall taxes.

New Initial Due Date And Allowable Extensions For FinCEN Form 114 (FBAR). If you own (or have signatory authority over) foreign financial accounts exceeding an aggregate value of $10,000 at any time during the year, you are generally required to file FinCEN Form 114, "*Report of Foreign Bank and Financial Accounts*" (FBAR), ***by June 30*** of the year immediately following the reporting year. Traditionally, no

extensions have been available for this June 30th due date. ***For tax years beginning after 2015,*** *Recent Tax Legislation* provides that the ***initial due date*** for ***FinCen Form 114*** will be ***April 15th*** of the following year (i.e., the same initial due date for your Form 1040), and provides for a maximum ***extended due date*** until the following ***October 15th*** (i.e., the same extended due date for your Form 1040). **Planning Alert!** These new reporting deadlines do not apply until 2016. Therefore, the due date for filing FinCEN Form 114 ***for the 2015 calendar year will still be June 30, 2016***, with ***no extensions of time to file!***

DON'T OVERLOOK "AFFORDABLE CARE ACT" TAX CONSIDERATIONS

The "Shared Responsibility Tax" Rate For Those Who Fail To Carry Qualified Health Care Coverage Doubled In 2015. The ***"Shared Responsibility Tax"*** (***SR Tax***) rate increased from 1% of household income (in excess of the income filing threshold) for 2014, to 2% for 2015 – for those individuals who fail to carry qualified health care coverage for all of 2015, and don't qualify for an exemption. More specifically, for those without health care coverage for all of 2015, the ***SR Tax*** is generally the ***greater of:*** **1)** 2% of household income (in excess of the filing threshold), or **2)** $325 per adult ($162.50 per child) limited to a household maximum of $975. Also, the *SR Tax* may not exceed the cost of the national average for a bronze level health plan available through the government health insurance exchanges. The SR Tax is prorated on a monthly basis for individuals without coverage for only part of 2015. **For example,** assume a single individual (under age 65): **1)** Was uninsured for the ***entire 2015 year*** and does not qualify for an "exemption," and **2)** Earned ***$70,300*** (which is also the person's "*household income*"). The ***SR Tax*** for ***2015*** would be ***$1,200*** (for ***2014*** the SR Tax would have been only ***$600***). **Planning Alert!** Spouses filing a joint return are jointly liable for any *SR Tax* on the return, including any *SR Tax* due for qualifying dependents. The amount of the excise tax increases again in ***2016*** to ***2½%*** of household income (in excess of the filing threshold). **Planning Alert!** Individuals generally must pay an ***SR Tax*** if the individual or the individual's dependents are not covered by a ***"Qualified Health Plan"*** (i.e., a health plan or insurance policy providing "minimum essential coverage") for any month during 2015. To avoid the *SR Tax*, an individual (and anyone the individual ***may claim*** as a dependent) generally must either: **1)** Be covered under a ***"qualified health plan,"*** or **2)** Qualify for a specific ***"exemption"*** from the tax. **Caution!** The IRS says that an individual cannot avoid the *SR Tax* for someone who he or she may claim as a dependent, simply by failing to claim that person as a dependent on the individual's tax return.

- **Tax Tip.** If you or your dependent do not have qualifying health care coverage, you may qualify for an exemption, such as: You lived abroad and met certain conditions; You failed to have "qualified health plan coverage" for less than 3 months during 2015; Your income is below the threshold for filing an income tax return; or, You qualify for a ***"hardship exemption."*** **Planning Alert!** If you think you or your dependent may need a "hardship" exemption in 2015, you will generally need to apply for an "exemption certificate." This application form may be obtained on-line at www.HealthCare.gov. **Tax Tip.** If you think you or anyone in your household may qualify for a hardship exemption, we suggest you begin the application process as soon as possible. If your application is approved, be sure to provide our firm with your exemption certificate. Please call us if you need additional information.

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

POSTPONING TAXABLE INCOME FREQUENTLY SAVES OVERALL TAXES

Deferring income into 2016 is a good idea if you believe that your marginal tax rate for 2016 will be equal to or less than your 2015 marginal tax rate. In addition, deferring income into 2016 could increase various credits and deductions for 2015 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This tax planning strategy may generate unexpected tax benefits if, as many expect, Congress retroactively extends the income-sensitive tax breaks that expired at the end of 2014 (e.g., $4,000 qualified higher education expense deduction, deduction for home mortgage "insurance premiums").

Deferring Income Could Help You Stay In Lower Tax Brackets. Deferring taxable income from 2015 to 2016 may reduce your exposure to higher tax brackets if, for example: **1)** The deferral of income causes your 2015 taxable income to fall below the thresholds for the highest 39.6% tax bracket (i.e., $464,850 for joint returns; $413,200 if single), or **2)** As discussed in more detail on the next page, you have income subject to

the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral causes your 2015 modified adjusted gross income (MAGI) to fall below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single). If, after considering these factors, you believe that deferring taxable income into 2016 will save you taxes, consider the following strategies:

- **Self-Employment Income.** If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2016. **Planning Alert!** If you have already received the check in 2015, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

- **Cancellation Of Debt Income.** If you negotiate or arrange a reduction or cancellation of a debt you owe to others, unless you meet certain exceptions, you will generally have to report "cancellation of debt" (COD) income. For example, COD income could occur where: your creditor agrees to accept as full payment an amount which is less than the balance due on an obligation; you own real estate subject to a mortgage and the lender forecloses on the property (or, you enter into a short sale of the mortgaged property); you own an interest in a partnership (or LLC) or "S" corporation that is anticipating a transaction that could trigger COD income that will "pass through" to your individual return. **Planning Alert!** If you are in the process of negotiating an agreement with your creditors that involves a debt reduction that would trigger COD income, consider postponing the action until after 2015 to defer any debt cancellation income into 2016. **Caution!** A "temporary" tax break allowing you to exclude income from the discharge of all or a portion of a mortgage (not exceeding $2 million) that you incurred to purchase, construct, or substantially improve your principal residence, ***expired after 2014.*** This tax break can be beneficial for taxpayers who are negotiating home mortgage work-outs with the bank (which may include a "short-sale" of the residence) and may be extended by Congress. If you are in this situation, please call us before finalizing your negotiations with the lender and we will update you on the availability of this exclusion. If the exclusion is extended to 2015 by Congress, it may be preferable to have the debt cancelled in 2015 so you can use the exclusion.

- **Tax-Free IRA Payments To Charities If You Are Age 70½ Or Older.** For the past several years, we have had a popular rule that allows taxpayers, who ***have reached age 70½,*** to have their IRA trustee contribute ***up to $100,000*** from ***their IRAs directly to a qualified charity,*** and ***exclude the IRA distribution from income.*** The IRA transfer to the charity also counts toward the IRA owner's "required minimum distributions" (RMDs) for the year. For those with charitable desires, this tax break effectively allows a qualifying taxpayer to exclude all or a portion of their otherwise taxable RMDs from taxable income. This, in turn, could cause your 2015 modified adjusted gross income (MAGI) to stay below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), that might otherwise be imposed on your investment income (e.g., dividends, interest, capital gains). Moreover, this exclusion could also increase various credits and deductions for 2015 that would otherwise be phased out as your adjusted gross income increases. **Planning Alert!** This provision ***expired at the end of 2014!*** However, this tax break is included in the current proposed "extenders" legislation currently before Congress. Please call our firm if you want a status report on this provision.

TAKING ADVANTAGE OF DEDUCTIONS

"Above-The-Line" Deductions Become Even More Important In Light Of Recent Tax Increases. So-called ***"above-the-line"*** deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while ***"itemized"*** deductions (i.e., below-the-line deductions) do ***not*** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) are particularly favorable because they not only reduce your taxable income, they also may free up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., itemized deductions, personal exemptions, certain IRA contributions, certain education expense deductions and credits, adoption credit, etc.). In addition, "above-the-line" deductions could serve to reduce your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8 % NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single).

- **"Above-The-Line" Deductions.** ***"Above-the-line"*** deductions include deductions for IRA or Health Savings Account (HSA) contributions, health insurance premiums for self-employed individuals, qualified student loan interest, qualified moving expenses, alimony, and business expenses for a self-employed

individual. **Tax Tip.** Unreimbursed employee business expenses are classified as *"miscellaneous itemized deductions"* and trigger two potential limitations: **1)** Aggregate "miscellaneous itemized deductions" are allowed only to the extent they exceed 2% of your AGI, and **2)** Any excess is included in "itemized deductions" which are reduced once your AGI exceeds certain thresholds (e.g., for 2015 – $309,900 for joint returns; $258,250 if single). However, if you arrange for your employer to reimburse you for your "qualified" employee business expenses under an ***"accountable reimbursement plan,"*** the reimbursement is excluded from your income (which is generally the equivalent of an "above-the-line" deduction). **Note!** We can help you establish a qualifying *accountable reimbursement plan* with your employer.

- **Accelerating "Above-The-Line" Deductions.** As a cash method taxpayer, you can generally accelerate a 2016 deduction into 2015 by "paying" it in 2015. "Payment" typically occurs in 2015 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express) in 2015. **Caution!** If you post-date the check to 2016 or if your check is rejected, no payment has been made in 2015. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment are not deductible in 2015.

- **Deductions For Business Expenses Paid By Partners.** Generally, the IRS allows a partner in a partnership (or owner of an LLC) to take an "above-the-line" deduction for business expenses the owner ***paid on behalf*** of the partnership (or LLC) ***only if*** there is an agreement (preferably in writing) between the partner and the partnership providing that those expenses are to be paid by the partner, and that the expenses will not be reimbursed by the partnership. **Tax Tip.** If you are a partner or LLC owner paying unreimbursed expenses on behalf of your partnership or LLC, to be safe, you should have a written agreement with the entity providing that those expenses are to be paid by you, and that the expenses will not be reimbursed by the partnership or LLC.

Accelerating "Itemized" Deductions Into 2015. As mentioned above, although ***"itemized"*** deductions (i.e., *below-the-line* deductions) do ***not*** reduce your AGI or MAGI, they still may provide valuable tax savings. ***Itemized deductions*** generally include charitable contributions, state and local income taxes, property taxes, medical expenses, unreimbursed employee travel expenses, home mortgage interest, and gambling losses (to the extent of gambling income). However, if your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years. **Tax Tip.** The easiest deductions to shift from 2016 to 2015 are *charitable contributions*, *state and local taxes*, and your January, 2016 home *mortgage interest payment*. For 2015, the standard deduction is $12,600 on a joint return and $6,300 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,250 if you're married ($1,550 if single). **Watch Out For AMT!** Certain itemized deductions are not allowed in computing your alternative minimum tax (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Before you accelerate 2016 itemized deductions into 2015, to be safe, we should calculate your taxes "with and without" accelerating the deduction so we can determine the AMT impact of this strategy.

Pay Careful Attention To The Payment Of Your State And Local Income Taxes. If you anticipate deducting your state and local income taxes, consider paying them (fourth quarter estimate and balance due for 2015) and any property taxes for 2015 ***prior to January 1, 2016*** if your tax rate for 2015 is higher than or the same as your projected 2016 tax rate. This will provide a deduction for 2015 (a year early) and possibly against income taxed at a higher rate. **Caution!** If you expect your 2015 AGI to be above the threshold for phasing out "itemized deductions" (e.g., above $309,900 for joint returns; $258,250 if single), but expect your 2016 AGI to be below those thresholds, accelerating your tax payment into 2015 may not be advisable. **Planning Alert!** State and local income and property taxes are not deductible for AMT purposes. Consequently, you should not employ this tactic without carefully calculating the alternative minimum tax impact. Also, "overpayment" of your 2015 state and local income taxes is generally not advisable if a refund in 2016 from a 2015 overpayment will be taxed at a higher rate than the rate that applied to the 2015 deduction. ***Please consult us before you overpay state or local income taxes.***

- **Option To Deduct Sales Tax Expired After 2014!** For the past several years, taxpayers could "elect" to deduct "either" state and local ***income*** taxes or state and local ***sales*** taxes, as itemized deductions. This election has been particularly popular among residents who live in states with little or no state income taxes, or states where the state income taxes paid are generally less than the sales taxes paid. **Planning Alert!** This provision is included in the list of tax breaks that ***expired after 2014.*** However, if and when "extenders" legislation is passed by Congress, this provision will likely be included.

TAX PLANNING FOR INVESTMENT INCOME (INCLUDING CAPITAL GAINS AND THE 3.8% NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The ***Affordable Care Act*** (*ACA*) contains a ***3.8% Net Investment Income Tax (3.8% NIIT)*** on *net investment income* of higher-income individuals. This tax started in 2013, and potentially applies to individuals with modified adjusted gross income (MAGI) exceeding the following ***"thresholds"*** (which are ***not indexed*** for future inflation): ***$250,000*** for ***married filing jointly; $200,000*** if ***single;*** and ***$125,000*** if ***married filing separately.*** The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), but it also applies to "business" income that is taxed to a "passive" owner, as discussed below:

- **"Passive" Income.** *"Net Investment Income"* for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a "passive" owner (unless the income constitutes *self-employment* income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional "passive activity loss" rules. For example, under the *passive activity loss* rules, you may be a *"passive"* owner unless you spend more than 500 hours working in the business during the year or meet one of the other "material participation" tests. Furthermore, *rental income* is generally deemed to be "passive" income under the *passive activity loss* rules, regardless of how many hours you work in the rental activity. **Tax Tip.** In certain situations, real estate rentals may not be treated as "passive" income and could also be exempt from the 3.8% NIIT. For example, if you are a "qualified real estate professional," or you lease property to a business and you "materially participate" in the business operations of your lessee, the rental income may be exempt from the 3.8% NIIT. If you believe you may qualify for one of these rental exemptions, or you otherwise believe you may have "passive" income from non-rental business activities, please contact our firm. We will gladly evaluate your situation to determine whether there are steps you could take before the end of 2015 to avoid "passive" income classification, and thus, reduce your exposure to the 3.8% NIIT.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short-term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual who is otherwise taxed in the 39.6% ordinary income tax bracket paying tax on his or her ***net long-term capital gains*** at a ***23.8%*** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). This individual's ***net short-term capital gains*** could be taxed as high as ***43.4%*** (i.e., 39.6% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities are more important than ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the ***economics of a sale or exchange first!***

- **Planning With Zero Percent Tax Rate For Capital Gains And Dividends.** Long-term capital gains and qualified dividends that would be taxed (if ordinary income) in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. For 2015, taxable income up to $74,900 for joint returns ($37,450 if single) is taxed at the 15% rate, or below. **Tax Tip.** Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2015, may temporarily have income low enough to take advantage of the zero percent rate for 2015. If you are experiencing any of these situations, please call our firm and we will help you take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.

- **Timing Your Capital Gains And Losses.** If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2015, you should consider selling securities ***prior to January 1, 2016*** that would trigger a capital

loss. These losses will be deductible on your 2015 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: $2,500 American Opportunity Tuition Tax Credit, $1,000 child credit, $13,400 adoption credit, etc. **Planning Alert!** If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). **Tax Tip.** If you are afraid of missing an upswing in the market during this 60-day period, consider buying shares of a different company in the same sector. Also, there is *no* wash sale rule for *gains*. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

Consider Increasing Withholding If You Expect A 3.8% NIIT Or A Large Net Capital Gain. If you experience a large net capital gain this year and/or you have significant ***investment income*** that will trigger the ***3.8% NIIT*** for 2015, you could be subject to an underpayment penalty if you haven't adjusted your estimated tax payments or withholdings to cover the unexpected additional taxes. However, ***increasing your withholdings before the end of 2015*** may solve the problem. Any income tax withholding (including withholdings at the end of 2015 from a year-end bonus or an IRA distribution) is generally deemed paid 1/4 on April 15, 2015; June 15, 2015; September 15, 2015; and January 15, 2016. Therefore, amounts ***withheld on or before December 31, 2015*** may reduce or eliminate your penalty for underpaying estimated taxes. **Planning Alert!** If you take an IRA distribution and have taxes withheld from the distribution to avoid an underestimate penalty, you must roll the distribution (unreduced by the withheld taxes) into an IRA within 60 days of the distribution to avoid paying taxes (and possibly a 10% penalty) on the IRA distribution. You are allowed to take a distribution from an IRA and roll it over into a new IRA, ***only one time per year*** (beginning with the date you received the distribution). **Caution!** If you used this withholding technique last year by having taxes withheld from an IRA distribution in 2014, ***be very careful*** that you do not violate the ***one-rollover-per-year*** rule if you plan to use this technique again this year. Please call our firm before you initiate an IRA distribution in order to increase your tax withholdings.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this letter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of the provisions discussed may apply to a specific situation.

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