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15 Midyear Tax Planning Moves You Can Make In ‘15

You’ve just put your 2014 tax return to bed, but there’s no rest for the weary. It’s already time to focus on tax planning for 2015. Appropriately enough, here are 15 midyear tax-saving ideas to consider:

1. Harvest losses from securities sales. If you cashed in stock market winners earlier in the year, now’s a good time to start filling up the loss side of the ledger. Your capital losses will completely offset capital gains realized in 2015, plus up to $3,000 of highly taxed ordinary income.

2. Recognize low-taxed capital gains. Conversely, if you sell securities qualifying as long-term capital gains, the maximum tax rate is only 15% or 20% if you’re in one of the top two ordinary income tax brackets. But keep in mind that some upper-income investors also may have to pay a surtax of 3.8% on capital gains.

3. Take the 0% tax rate to the max. If you expect 2015 to be a low-income year (for example, you may incur a substantial business loss), a portion of your long-term capital gains may qualify for a rock-bottom 0% tax rate that applies to investors in the regular 10% and 15% tax brackets. When possible, realize investment income up to the top threshold of the 15% rate. Also, consider this strategy for your children.

4. Sidestep the wash sale rule. If you acquire securities that are substantially identical, within 30 days of selling securities at a loss, you can’t deduct the loss. But this harsh “wash sale” result can be avoided by waiting at least 31 days to buy back the same securities. Alternatively, you could buy the securities first and wait at least 31 days before selling your original shares.

5. Invest in dividend-paying stocks. Most stock dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, you must hold the shares for at least 61 days.

6. Arrange an installment sale. Generally, you can defer tax on the sale of real estate or other property if you receive payments over two years or longer. In addition to stretching out tax payments over time, you might reduce the effective tax rate if you stay below the thresholds for higher capital gains rates and the 3.8% surtax.

7. Contribute to a 401(k). Reduce your 2015 tax liability by increasing contributions to a 401(k) plan where you work. For 2015, the maximum deferral is $18,000 ($24,000 if age 50 or over). Not only do you avoid tax on the contributions, the money in your account compounds tax-deferred until you withdraw it during retirement.

8. Convert to a Roth IRA. If you have funds in a traditional IRA, you can convert some or all of those funds to a Roth IRA. Roth distributions in the future will be tax-free if they meet a few conditions. But you don’t have to

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Rely On The Rule Of 72 To Give You Quick Answers

In the high-tech world we live in, it’s astonishing to think that a simple mathematical formula dating from the 15th century may still be useful to investors. It’s called the Rule of 72.

If you’re not familiar with the Rule of 72, it tells you how long it would take to double the money you’re investing or what return you’ll need to double your money during a specified time period. Either way, the magic number is 72.

The best way to explain this rule is to look at a couple of examples. (Keep in mind that the figures in these examples are hypothetical and don’t reflect any actual investment. The returns you earn will depend on market conditions.)

Example 1. Suppose you expect to earn an 8% after-tax compounded return on a $10,000 investment. Simply divide 72 by the 8% rate of return to determine that it will take nine years to double your investment to $20,000.

Example 2. Now let’s say you want to double your investment to $20,000 in no more than 10 years. To find the rate of return required to do that, divide the magic number 72 by 10. This shows that you’ll need an after-tax compounded return of 7.2% to achieve your goal.

Of course, you should not use the Rule of 72 to replace in-depth investment planning. But it certainly can give you a back-of-the envelope answer in a hurry.

Robert J. Pyle, CFP, CFA

You Know You're Getting Old When You Get RMD Notice

Growing older is something everyone must face, even if it's only one day at a time. But what is old, and how do you know when you get there? One way is when you get a notice that you have reached the year of your 70th birthday and must begin taking required minimum distributions from your 401(k) or other retirement plan or a traditional IRA account. This is a wakeup call, and a shock, for some people.

Here is a typical notice from an IRA custodian. Sent this year, it reads, "Federal tax law requires that you receive taxable payments from your traditional IRA every year once you reach age 70½. These payments are called required minimum distributions (RMDs). If the RMD is not taken, the IRS could assess a 50% excess accumulation penalty tax on the amount of the payment that should have been distributed but was not. According to our records, you have a traditional IRA with us and will attain age 70½ in 2015."

Owners of Roth IRAs do not receive these notices because there's no tax deduction for Roth contributions—that money already has been taxed—and withdrawals therefore are tax-free.

A woman who recently received a RMD notice called her IRA custodian and exclaimed that she was shocked into reality about her age when she received the notice. "Even though I was of course aware of my age at one level, the notice shocked me into reality that indeed I am getting old."

Although still working, she said she plans to retire after she takes her first withdrawal by April of 2016. By law, RMDs may be taken as late as April of the year following the year a person turns 70½.

Now, back to the question of how old is old. According to statistics compiled by the Organization for Economic Cooperation and Development (OECD), whose membership is composed of 36 nations, the average man in the U.S. as of 2011 could expect to live to age 76. Women in the U.S. the same year can expect to live to an average age of 81.

As far as longevity is concerned, the U.S. doesn't fare very well when compared to other nations. This country ranked No. 26 among the 36 OECD member nations, with an overall life expectancy for both genders of 78.7.

That's the bad news. Now, here's the good news: people are living longer as time passes.

Here's proof: according to statistics compiled by Infoplease, overall life expectancy in the U.S. in 2014 had moved up to 79.56 years.

Time is precious. Enjoy the rest of your life on earth. Proper retirement planning will help ensure your life's enjoyment after you reach "old age."

We are more than happy to assist with your planning. ●

Here's What You Can't Do In An IRA

If you have an IRA, you know how easy it is to move assets from one investment to another. You're able to choose from a wide array of investment options, and to take out money whenever you want, although you'll have to pay tax when you do. But there are some things you can't do with an IRA. There are strict rules against certain "prohibited transactions," which are spelled out in the tax laws. And there could be adverse consequences if you don't comply with the requirements.

The IRS defines a prohibited transaction as any improper use of an IRA by the owner, his or her beneficiary, or any "disqualified" person. That last includes IRA fiduciaries and members of the owner's family. An IRA fiduciary is someone who (1) exercises any discretionary authority or control in managing the IRA or exercises authority or control in managing or disposing of its assets; (2) provides investment advice to the IRA for a fee, or has any authority or responsibility for doing so; or (3) has discretionary authority or responsibility for administering the IRA.

What can't you do with your IRA? You're prohibited from:

- Borrowing money from it;
- Selling property to it;
- Using it as security for a loan;
- Buying property for personal use with IRA funds.

You can, however, effectively take a short-term loan from your IRA by withdrawing funds from it and then depositing the same amount back into the same or a different IRA within 60 days. That is technically a "rollover" and is not treated as a prohibited transaction.

If a prohibited transaction occurs, your account stops being an IRA as of the first day of the year of the violation. The net effect is that you're treated as having received a distribution of all of

Wall Street's Anachronistic Ways In The Internet Age

Wall Street's largest firms are asked every December by Barron's, a venerable weekly financial newspaper, to predict which industry sectors will outperform in the year ahead. Fritz Meyer Economic Research, an independent economic research publisher, has tracked the strategists' predictions annually since 2007 and his 2014 research report shows why Wall Street is fast-becoming an anachronism.

Every January, Fritz Meyer, an independent economist, publishes a scorecard showing how the Wall Street giants' picks from a year earlier have performed.

"I'm the only one that I know that's doing this — systematically holding these strategists accountable for their lousy calls," says Meyer, who was an investment strategist at one of the world's largest mutual fund companies before establishing his own independent economic research firm in 2008.

Meyer has documented Wall Street's calls since Barron's began annually publishing the strategists' forecasts in 2007 in a mid-December cover story. The respected weekly newspaper, which is widely followed by Wall Street's army of brokers, is an excellent publication, but its annual "Outlook" cover story exposes why Wall Street is losing market share to independent financial advisors.

According to Meyer, anyone who followed the investment advice from the Wall Street giants in 2014, as published in Barron's December 16, 2013, would have underperformed the Standard & Poor's 500. "There is no single strategist who I can see made consistently winning sector calls," says Meyer, "and I'm not aware of any strategist or money manager who can consistently do any better than this group of 10 representing the highest-profile firms."

Before the Internet age, Wall Street could make predictions without much fear of ever being held accountable. Now, in an age of transparency, TV ads with stampeding bulls don't mean as much. Truth is viral. In the Internet age, a single independent researcher can document Wall Street's track record of poor performance, Wall Street's brand and TV ads can't dispute the facts, and transparency prevails.

According to Meyer's research, the sector "picks and pans" made by Wall Street's strategists included three good calls, but the four bad calls is what would have really hurt an investor's results. All 10 Wall Street firms had been bullish on technology in December 2013, and that was a good call. The S&P Technology Index, gained 18% in 2014 and returned second-best results of the 12 industry sectors. However, the consensus forecast among the analysts had been bullish on technology in each of the previous four years; this was the first year the consensus was right.

Six of the 10 strategists interviewed by Barron's panned utilities in December 2013 and only one of them picked utilities to outperform the S&P 500 stock index. Utilities engendered the most negative outlook among the strategists, but it was the No. 1 performing sector in 2014, soaring 24%. Along the same lines, six of the Wall Street firms panned Consumer staples and that industry's stock index gained a whopping 13% in 2014 — a gain you would have missed if you had followed Wall Street's advice.

The financial news media lack the wisdom or incentive to hold Wall Street accountable for giving bad financial advice. But Wall Street firms are a dying model for the financial advice profession and are being replaced by independent advisors like our firm, and Meyer's independent research is a clear indication of the reasons why. In the Internet age, transparency is inevitable, and Wall Street's outmoded ways are exposed as a relic of the past. The folly of the notion that big Wall Street firms can offer better financial advice than a small independent firm like ours is laid bare. ●

Wall Street's Top Strategists' 2014 Track Record

Barron's 2014 Forecast[1] Survey of 10 stock market strategists' sector picks and pans for 2014

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities
Federated		👎				👍	👍	👍	👎	👎
Blackrock	👎	👎	👍				👍			👎
Barclays Capital		👍		👎		👍	👍	👎		👎
Columbia Mgmt.						👍	👍		👎	👎
Goldman Sachs	👍	👎				👍	👍		👎	👎
JPMorgan Chase	👍	👎		👍			👍	👍		👎
Citi Research	👎			👍	👎		👍	👎	👎	👍
Morgan Stanley	👎	👎	👎		👍		👍	👍		
Prudential		👎		👍		👍	👍	👎		
BofA Merrill Lynch	👎		👍		👍[2]	👍	👍		👎	👎
Net (+/-)	-2	-5	+1	+2	+1	+6	+10	0	-5	-6
Sector Ranking	6	5	10	4	2	7	3	8	9	1
2014 Return[3]	↑8%	↑13%	↓10%	↑13%	↑23%	↑8%	↑18%	↑5%	↓2%	↑24%
Results	Neutral	Miss	Neutral	Good call	Miss	Bad call	Good call	Neutral	Good call	Huge miss

Source: Fritz Meyer Economic Research

[1]Published Dec. 16, 2013.
[2]Pharmaceuticals. [3]These are S&P 500 sector returns for calendar 2014. Past performance is not a guarantee of future results. For illustrative purposes only.

the IRA assets equal to their fair market value (FMV) on January 1 of that year. Assuming the total FMV exceeds your basis in the assets, you owe tax on the difference, just like you would on any other withdrawal. Plus, you're generally required to pay a 10% penalty if you're younger than 59½.

Other rules restrict the types of investments you can make in an IRA. For instance, you can't invest in life insurance or collectibles such as works of art, stamps, precious stones, or jewelry. With a few limited exceptions, IRA funds also can't be invested in gold or silver coins. And the IRA can't hold any property that you personally use, such as your primary residence or a vacation home. Holding certain other types of real estate, however, such as undeveloped land, may be permitted.

The tax law gives you plenty of leeway with regard to IRAs, but there are limits to that freedom. Make sure not to step over the line. ●

Trap

IRAs – Prohibited Transactions

- Any direct or indirect sale or exchange, or leasing, of any property between a plan and a disqualified person; commonly:
  - Residence or cottage
  - Business interest
  - Investment real estate
- Qualified Plan Penalties
  - 15 percent tax on the amount involved with a prohibited transaction
  - 100 percent tax if the prohibited transaction is not corrected
- IRA
  - Entire account is immediately disqualified & deemed distributed
  - Entire account is subject to income taxation

Are You Being Socially Responsible?

How can you invest to make money with a clear conscience about your investment choices? The concept of "socially responsible investing" (SRI) – also known as socially conscious, mission, ethical, or green investing – has taken hold in this country. According to a recent report by the Forum for Sustainable and Responsible Investment, a nonprofit group known as US SIF, it represents more than one out of every six dollars of managed assets in the U.S., accounting for as much as $6.57 trillion.

But SRI requires more than a mere promise to recycle newspapers and bottles or to be kinder to strangers. SRI investors use three basic principles to guide their choices:

1. ESG. First and foremost, SRI advocates look to invest in companies that demonstrate values the advocates hold near and dear to their hearts. This might include beliefs about the environment, consumer issues, religious protection, and human rights, to name just a few. These areas of concern often are summarized as "environmental, social, and governance," or ESG.

2. Shareholder advocacy. This involves attempting to discourage corporate decisions that could affect the core values of ESG adversely. Proponents hope to convince companies to improve their practices and policies and act as good corporate citizens while still delivering long-term growth. These goals may be accomplished through various means, including starting a dialogue, filing of resolutions for shareholder votes, educating the public, and attracting media attention to hot-button issues.

3. Community investing. This has become the fastest growing aspect of SRI with an estimated $61.4 billion in assets under management in 2014. With community investing, capital is directed to communities, here and abroad, that are seeking to provide services such as housing, education, health care, and child care.

Socially responsible investors come from all walks of life. They may range from people investing in mutual funds that specialize in choosing companies that have what are considered to be appropriate ethical and environmental practices to hospitals that won't invest their endowments in tobacco companies to public pensions emphasizing a commitment to reduce greenhouse gas emissions and to factor climate change into strategic planning.

In particular, mutual funds taking these approaches have experienced rapid growth during the past few years. According to US SIF, the number of ESG mutual funds in the U.S. grew from 333 to 456 from 2012 to 2014, with assets under management increasing from $641 billion to $1.93 trillion.

Before you jump on the SRI bandwagon, make sure this is the right path for you. We can help you investigate all the possibilities. ●

15 Midyear Tax Planning Moves

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convert all at one time. Instead, stagger taxable conversions over several years to lessen the tax bite.

9. Sell the old homestead. The tax law allows you to exclude tax on a gain of up to $250,000 for single filers and $500,000 for joint filers if you've owned and used a home as your principal residence at least two of the past five years. Your gain also is exempt from the 3.8% surtax.

10. Rent out a vacation home. You can write off certain rental activity costs, plus depreciation, but be careful: If your personal use of the rental home exceeds the greater of 14 days or 10% of the days the home is rented out, your deductions are limited to the amount of your rental income.

11. Support your college grad. Generally, you can claim a $4,000 dependency exemption for a child graduating from college in 2015 if you provide more than 50% of the child's annual support. Figure out the amount of support needed to put you over that mark.

12. Dust off charitable donations. Don't toss out old furniture and clothing; give items in good condition to charity. Generally, you can deduct the fair market value of property donated to a qualified charitable organization, within certain limits.

13. Send your kids to camp. If your under-age-13 children attend a day camp while you (and your spouse, if married) work this summer, you may qualify for the dependent care credit. However, the cost of overnight camp isn't eligible.

14. Adjust your withholding. Check to see whether you're having enough income tax withheld from your paychecks. Make necessary adjustments so you don't have to pay an "estimated tax penalty" in 2015.

15. Give 'til it hurts. Finally, under the annual gift tax exclusion, you can give up to $14,000 to any family member in 2015 free of gift tax. This reduces the size of your taxable estate for the future. ●

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