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14 Top Year-End Tax Moves For Individuals In 2014

'Tis the season for year-end tax planning. By making tax moves, particularly those that relate to your investments, as the year winds down, you can pile up tax savings. Here are 14 strategies that may result in holiday cheer:

1. Harvest capital gains. Despite recent tax rate increases, you still can benefit from favorable tax rates if you sell securities at year-end. For instance, the maximum tax rate for long-term capital gains remains 15% for most investors in 2014. It's 20% for those in the top ordinary income tax bracket—still pretty good.

2. Harvest capital losses. If you've already realized gains this year—especially short-term gains taxed at ordinary income rates—you could unload something now at a loss. Your losses can offset the capital gains, plus up to $3,000 of ordinary income in 2014.

3. Maximize the 0% rate. If you expect this year to be a low-income year (for example, if you have a large business loss), a portion of your long-term capital gains may qualify for the 0% tax rate that applies to income in the two lowest ordinary income tax brackets. Try to make sure that you and other family members cash in on this benefit when you can.

4. Buy into dividend-paying stocks. Most stock dividends are taxed at the same preferential tax rates as long-term capital gains under the same basic tax rate structure. To qualify for this tax break, you must hold the stocks paying the dividends for at least 61 days.

5. Minimize NII tax. A 3.8% tax applies to the lesser of your net investment income (NII), which includes capital gains and dividends, or your modified adjusted gross income (MAGI) above $200,000 for single filers and $250,000 for joint filers. (If your income falls below those thresholds, you won't owe NII tax.) You can reduce exposure to this tax by lowering your NII and MAGI for 2014 (for example, by investing in tax-free municipal bonds).

6. Sidestep the wash sale rule. If you buy "substantially identical" shares within 30 days of selling securities at a loss, you can't deduct the loss on your tax return. Avoid this "wash sale" rule by waiting at least 31 days to buy back the same shares or buy the new stock first and then wait at least 31 days to sell the original shares.

7. 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. Not only do you stretch out your tax payments over time, you might pay a lower tax rate for capital gains than if selling the property pushed you

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5 Traits Investors Can Pick Up From Derek Jeter

Derek Jeter, the iconic star of the New York Yankees, retired this season after 20 years in the major leagues. Many attributes displayed by Jeter during his baseball career translate to the investment arena. For example:

1. Don't try to hit home runs. If you're trying to make a killing in the stock market, you're more likely to strike out than connect. Instead of "swinging for the fences," aim for solid singles up the middle.

2. Be a leader. Don't automatically follow the rest of the crowd. The Yankee captain set the tone for his team. Similarly, you should build your investment plan according to your personal circumstances.

3. Stay balanced at the plate. Unlike some of baseball's sluggers, Jeter's balanced approach made it difficult to get him out. Through asset allocation and diversification, you may be able to reduce investment risks. Also, remain flexible enough to make adjustments when they're needed.

4. Keep an even keel. Jeter didn't wilt under the pressure of the playoffs and World Series. It's important to stay cool, calm, and collected during the inevitable ups and downs of the stock market.

5. Plan ahead for a comfortable retirement. Jeter was able to go out in a blaze of glory on his own terms. If you stick to your investment principles, you have a better shot of achieving your own retirement goals.

Robert J. Pyle, CFP, CFA

Fly Below The Tax Radar At Year-End

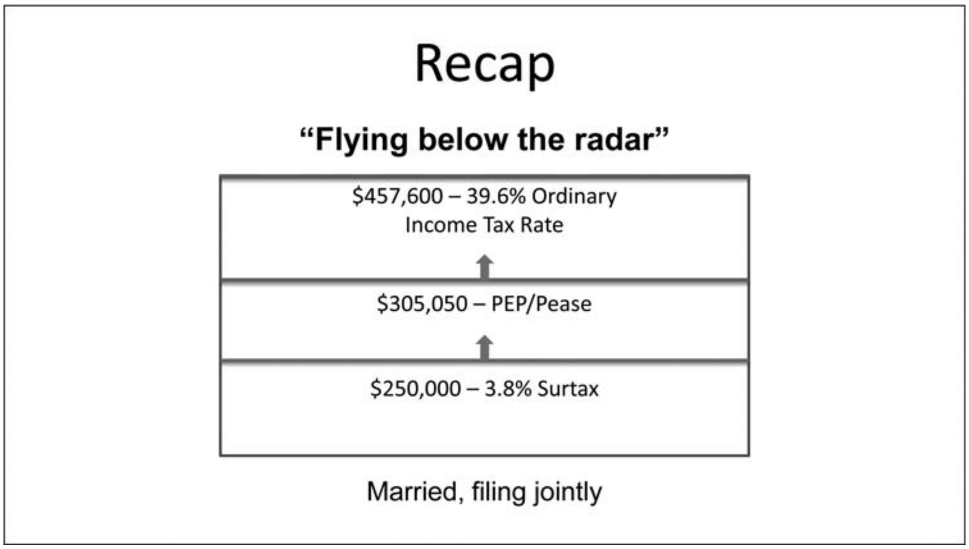
The IRS often zooms in on upper-income taxpayers, especially those who buy and sell a lot of investments, and with good reason: These taxpayers have the most to gain or lose because the stakes are high. However, you can reduce the chances for an unhappy tax landing by flying below the "tax radar."

There are three key tax thresholds to think about in 2014. If you stay below those lines, you're more likely to end up with a reduced tax bill. Let's examine each one:

1. Ordinary income tax rates. Under the graduated tax structure, there are seven tax rates that range from a low of 10% to a high of 39.6%. Even if you're in the top tax bracket, you benefit from the lower brackets, but once your income rises into the top bracket—in 2014, when it exceeds $457,600 as a joint filer or $406,750 as a single filer—any additional taxable income will be subject to the 39.6% rate. Deferring some income to 2015 could help, especially if you expect to be in a lower tax bracket next year.

2. The Pease and PEP rules. Under the Pease rule, named for the congressman who introduced this provision, most itemized deductions are reduced by 3% of the amount that your adjusted gross income (AGI) exceeds a dollar threshold, though the total reduction can't be more than 80%. Personal exemptions are reduced by the PEP (personal exemption phaseout) rule by 2% for each $2,500 (or a portion of that amount) that your AGI goes over the same threshold—$305,050 of AGI for joint filers and $254,200 for single filers.

3. The NII tax. There's now a 3.8% surtax that applies to the lesser of your "net investment income" (NII) or modified adjusted gross income (MAGI) that exceeds an annual threshold. Although NII includes most income items, distributions from IRAs and employer retirement plans are exempt. Nevertheless, the money you take from such plans still increases your MAGI for this calculation. The MAGI limit is $250,000 for joint filers and $200,000 for single filers. And while many tax law provisions rise when inflation does, this one doesn't.



Develop a year-end plan that is geared toward staying below these thresholds or at least as close to them as you can manage. In some cases, such as with the Pease and PEP rules or the NII tax, you may be able to avoid the tax complication altogether. Happy flying! ●

Social Security: Taxes In And Out

It seems like the IRS has you coming and going on Social Security. While you are working for a living, you must pay taxes into the system to provide benefits for current retirees. Then, when you finally retire, you're entitled to receive retirement benefits but they might be subject to tax as well.

Don't confuse the two taxes. The Social Security tax you pay as an employee is a payroll tax that applies to wages, commissions, and other compensation as part of the FICA tax. An employee's combined FICA rate for Social Security and Medicare in 2014 is 7.65% on the first $117,000 of compensation and 1.45% (Medicare only) above that. But the tax that may apply to Social Security benefits you get in retirement is a federal income tax that is reported along with other items on Form 1040. It's more complicated than the payroll tax.

Here's how it works: You're liable for tax on Social Security benefits if your provisional income (PI) exceeds certain thresholds in the tax law. For this purpose, PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income (for example, from municipal bonds), and (3) one-half of the Social Security benefits you received. For example, if the combined AGI of you and your spouse is $100,000 and you collect $5,000 in municipal bond income and $20,000 in Social Security benefits, your PI is $125,000 ($100,000 + $5,000 + $20,000).

There are actually two thresholds for computing the tax on Social Security benefits.

Threshold 1: For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).

Threshold 2. For a PI greater than

Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

But this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. With donations of stock that would have produced a short-term gain if you had sold it, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

Example 1: Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

Example 2: Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

These rules lead to guidelines that can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. But it makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important to donors in high tax brackets.

If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income tax-payers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.

Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel may have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●

$44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers). Silver lining: You'll never owe tax on more than 85% of your total benefits.

These two thresholds aren't indexed annually for inflation. If your PI exceeds a relatively low level of $32,000 ($25,000 for single filers), you'll owe the tax year in and year out. And you'll get hit with the higher tax rate every year that your PI exceeds just $44,000 ($34,000 for single filers).

What can you do about it? You might lower your PI by harvesting capital losses to offset capital gains or deferring taxable income to the following year. But remember that the income from tax-free municipal bonds counts against you in the calculation of PI. Consider all the relevant factors, including the potential tax implications for Social Security benefits, in your investment decisions. ●

When It Pays To ID Security Sales

Suppose you acquired shares of a single stock or mutual fund at various times during the past few years. Now the price has risen, and you may want to sell some of your holding and pocket a profit. Or maybe the price is down, and you want to sell shares to "harvest" a loss that could offset gains in other positions.

Either way, there's an important question: Which shares are you selling? Unless you say otherwise, the IRS assumes that the first shares you sell are the first ones you acquired. This "first-in, first-out" (FIFO) method acts as a default. However, you are allowed to specify other shares for the sale, and in some cases this may give you a better result in terms of taxes.

When you sell securities, such as stocks or mutual funds, you generally must recognize a gain or loss for tax purposes, based on the difference between the selling price and your "basis" (generally, your investment cost plus certain adjustments).

- If you have a gain and you've held the securities for more than one year, the maximum tax rate on the long-term gain is only 15% (or 20% if you're in the top tax bracket for ordinary income). Other gains are considered short-term and are taxed at ordinary income tax rates topping out at 39.6%. Some high-earning investors also may owe a 3.8 % surtax on net investment income.
- If you have a loss, it can offset capital gains plus up to $3,000 of ordinary income. Any excess loss can be carried over to next year.

Calculating your basis in a stock or fund can be confusing, especially if multiple lots of shares are involved. In the past, brokerage firms weren't required to supply information about your basis when you made a sale, although many did so when the figures were available. But now firms are required legally to report the information to investors, as well as to the IRS, for stocks acquired after 2010 and mutual fund shares acquired after 2011.

In addition, you're stuck with the FIFO default unless you opt out of it. Here's a hypothetical example of how you may do better by identifying your shares. (For simplicity, we'll avoid any transaction costs.)

Suppose you bought 1,000 shares of XYZ stock at $10 a share (Block 1) early this year and then 1,000 shares later at $15 a share (Block 2). XYZ now sells for $12 a share. If you sell 1,000 shares, the IRS will assume you're selling Block 1, so you'll be hit with ordinary income tax on a gain of $5 a share, or $5,000. However, if you specifically identify Block 2 as the shares you're selling, you'll have a tax loss of $3 per share ($3,000) rather than that $5 gain. Your proceeds from the sale, of course, are the same in either case.

How can you ID your shares? At the time of the sale, you must notify your broker which shares you are selling. Make sure you obtain a written or electronic confirmation of the transaction for your records. Then take advantage of your tax loss or gain on this year's return. ●

Top Year-End Tax Moves

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into the top tax rate.

8. Boost 401(k) contributions. Try to increase your tax-deferred contributions to a 401(k) plan at work. For 2014, you can elect to defer up to $17,500 to your account ($23,000 if age 50 or over). Besides trimming your current tax bill, it helps build savings for the future.

9. Convert to a Roth. If you have funds in a traditional IRA, you may move some or all of those funds to a Roth IRA, paying income tax now on the converted amount so that most future Roth distributions will be tax-free. If you spread the taxable conversions over several years, you'll reduce the tax bite.

10. Rent out a vacation home. You can write off specified rental activity costs, plus depreciation, but be careful. If your use exceeds the greater of 14 days, or 10% of the days the home is rented out, deductions can't exceed the amount of rental income you receive. Keep an eye on personal use as the year draws to a close.

11. Dust off charitable donations. Instead of tossing 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.

12. Take RMDs in time. You normally must take required minimum distributions (RMDs) from qualified retirement plans and IRAs each year after age 70½. If you don't, you'll pay a penalty equal to 50% of the required payout. To avoid problems, arrange for RMDs well before January 1.

13. Find a PIG. Under the passive activity rules, you can deduct losses from passive activities, including most investing, only against income from other passive activities. (Special rules apply to real estate.) Investing in a passive income generator (PIG), a special investment that produces passive income, could help increase this year's deductions.

14. Be generous to your family. Finally, under the annual gift tax exclusion, you can give up to $14,000 to anyone you choose in 2014 without paying gift tax. This reduces your taxable estate and generally results in overall income tax savings for the family. Happy holidays! ●

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