10 Tax Code Changes for 2015

Teresa S. Sampleton, CFP®, CPA
Vice President
Sampleton Wealth Management Group
123 Main Street
12th Floor
New York, NY 10018
(212) 555-1111 ext. 10
teresa.sampleton@sampletonwealth.com
www.sampletonwealth.com

SAMPLETON
Wealth Management Group

By Debra Taylor, CPA/PFS, Esq., CDFA

Every New Year seems to usher in a host of new and confusing tax laws. Get prepared for tax season by familiarizing yourself with these 10 new rules plus 10 tips on how to work with them.

With a tax code that is nearly 3.7 million words long, it is no wonder that taxpayers spend 3.8 billion hours per year complying with federal income tax laws.

To add to the confusion, the code has been subject to more than 5,000 revisions since 2001. Keeping up with the latest tax laws is difficult, but here are some ideas as to what you should be aware of in 2015.

1. Tax rates stay the same, but income limits rise

In 2015, the seven income tax rates will remain the same, but the amount of money you can earn before being bumped into a higher marginal bracket has increased. A complete list of the tax rates in 2015 follows.

Tip: Review your contributions to any retirement plans and be sensitive to taxable gains in an effort to reduce your taxable income.

Tax Rates 2015

Tax Bracket	Single Filer	Married Filing Jointly (Or Qualifying Widow/ Widower)	Married Filing Separately	Head of Household
10%	Up to $9,225	Up to $18,450	Up to $9,225	Up to $13,150
15%	$9,226 to $37,450	$18,451 to $74,900	$9,226 to $37,450	$13,151 to $50,200
25%	$37,451 to $90,750	$74,901 to $151,200	$37,451 to $75,600	$50,201 to $129,600
28%	$90,751 to $189,300	$151,201 to $230,450	$75,601 to $115,225	$129,601 to $209,850
33%	$189,301 to $411,500	$230,451 to $411,500	$115,226 to $205,750	$209,851 to $411,500
35%	$411,501 to $413,200	$411,501 to $464,850	$205,751 to $232,425	$411,501 to $439,000
39.6%	$413,201 or more	$464,851 or more	$232,426 or more	$439,001 or more

2. Adjustments to PEP and Pease

The limitations to itemized deductions (the Pease limitations) and phase outs for personal exemptions (PEP) will affect individuals with incomes of $258,250 or more, and married couples with $309,900 or more in income. The personal exemption amount will phase out completely at $380,750 in income ($432,400 for married couples filing jointly).

Tip: Review with your tax preparer possible credits and deductions. For example, if you have college-aged students, the American Opportunity Tax Credit will allow you to claim up to $2,500 in qualified expenses in 2015 (a tax credit which will reduce your tax bill dollar for dollar). You also may be able to deduct state and local taxes for the purchase or lease of a vehicle, the purchase of a boat or aircraft, or the purchase or renovation of a home.

3. Contribution limits for retirement plans rise

For retirement plan savers, contribution limits are rising in 2015. Individuals making contributions to 401(k)'s, 403(b)'s, and 457 plans can contribute $18,000, plus another $6,000 if age 50 or older. These limits increased from $17,500 with a $5,500 catch-up contribution in 2014.

For SEP IRA's and solo 401(k)'s, the contribution limit rises from $52,000 to $53,000 and SIMPLE IRA's have risen from $12,000 to $12,500, plus a $3,000 catch-up contribution.

Traditional and Roth IRA limits remain unchanged at $5,500, plus a $1,000 catch-up contribution.

Tip: Meet with your human resources department and adjust your payroll deductions to ensure you are maximizing your contributions to your employer-sponsored retirement savings vehicles.

4. Traditional IRA deductibility and Roth IRA eligibility limits widen

For traditional IRA savers who are covered by workplace retirement plans and filing single or as head of household, deductions for contributions are phased out between $61,000 and $71,000 (up from $60,000 and $70,000 in 2014).

For those married filing jointly, deductions are phased out between $98,000 and $118,000 when the IRA contributor is covered by a workplace plan and between $183,000 and $193,000 when the contributor is not covered by a workplace plan (but their spouse is).

For married individuals filing separately, the phase out remains at $0 to $10,000 when covered by a workplace plan.

For savers who want to contribute to a Roth IRA, the AGI phase out is rising to between $183,000 and $193,000 for those married filing jointly. If filing single, or filing as head of household, the range rises to $116,000 to $131,000. If you earn too much income to contribute directly to a Roth IRA, you can always contribute to a nondeductible IRA and convert to a Roth.

Tip: Taxes have gone up, and they are expected to keep rising. The ability to realize tax-free growth, especially for high wage earners, is powerful.

5. Health Savings Account eligibility rules are changing

Since 2013, flexible spending account (FSA) users have been able to carry forward up to $500 of unused money. If you are enrolled in a high deductible healthcare plan and make use of a health savings account (HSA), be careful about carrying over unused funds in a FSA.

Starting in 2015, if you carry over unused funds in your FSA, you may lose your eligibility to contribute to an HSA for the entire year. The rules are confusing, so be sure to review them closely with your tax preparer and your financial advisor.

Tip: HSA contributions reduce your taxable income, but contributions can grow tax-free if withdrawn for a qualified medical expense, and any unused funds in an HSA can be rolled over to an IRA at age 65. The HSA is not only a tax savings tool, but a "back-door" to boosting your retirement savings.

6. IRA Rollovers may trigger unwanted taxable events

A 2014 tax court ruling has changed how often you can roll over funds from one IRA to another. Under the old rules, you could transfer money between your IRA accounts as long as the transaction occurred within 60 days.

Beginning in 2015, you will be limited to one rollover in a 12-month period for all IRAs. If more than one transfer from any IRA occurs within 12 months, the transaction will be treated as a withdrawal triggering a taxable event (which will be subject to a 10% penalty if you are younger than 59½).

Tip: The most tax efficient way to roll over 401(k)s and IRAs is to perform a "direct rollover" where one trustee sends a check or transfers funds directly to the new trustee. The recent ruling does not affect these direct rollover transactions.

7. Section 179 deduction falls off the cliff (again!)

Congress retroactively reinstated the limit on Section 179 deductions to $500,000 through December 31, 2014. Small business owners who made large purchases of qualifying assets needed to run their business could accelerate the equipment's depreciation and write off up to $500,000 of expense. Unless Congress acts to extend the deduction, the amount plunges to $25,000 for 2015.

Tip: Small business owners making large equipment purchases in 2015 should review their options. They should understand over what period of time the equipment can be depreciated and if the equipment is eligible for bonus depreciation (a deduction of 50% of the value immediately).

8. Tax breaks for forgiven mortgages have expired (again!)

If you have to walk away from home debt (whether by a short sale or foreclosure) for financial reasons, the unpaid mortgage amount is essentially income. Congress enacted a tax break allowing discharged unpaid mortgage balances to be exempt from income taxes. This is another tax break on the list of 55 that expired on December 31, 2013, but was extended by Congress in late 2014. Unless Congress acts, foreclosures and short sales will trigger taxable events again in 2015.

Tip: Congress is expected to debate further extension of the Mortgage Forgiveness Debt Relief Act in 2015. However, if you are considering a short sale, be aware of the potential tax implications and consult a tax professional.

9. Expired tax benefits on charitable IRA rollovers

You may have lost your ability to have IRA distributions excluded from your income. IRA account holders who are age 70½ and older were able to have up to $100,000 in IRA distributions excluded from their income if they have those IRA funds contributed directly to a charity. Unless this charity tax break is extended again, IRA account holders will have to pay tax on IRA distributions before claiming a deduction for a charitable contribution.

Tip: If you have reached age 70½, and don't need your required minimum distribution (RMDs) to support your living expenses, and would like to make a charitable IRA donation, wait until year end to withdraw your RMD. While there is *no guarantee that the charity tax break will be extended again, the potential tax savings is worth waiting for.*

10. Severance payments are wages

Have you been laid off as part of a down-size or restructuring? If you are receiving severance, you may have to pay Social Security taxes on the severance you have already received, and on future payments in 2015.

The Supreme Court's decision in *United States v. Quality Stores, Inc.* has clarified that any supplemental unemployment compensation paid by an employer are taxable wages, and therefore subject to social security taxes.

Tip: If you have lost your job in the last year, contact your human resources department to ensure that the proper withholdings are being taken from your severance.

Though individual tax situations will vary, these are ten of the biggest tax code changes that you should be aware of in 2015. And don't forget about the 3.8% tax on net investment income and 0.9% Medicare surtaxes that have been imposed as part of the Affordable Care Act that took effect in 2014. These taxes will affect high wage-earners who are still working, and should be considered when making all investment decisions.

While more than 50 tax breaks have now expired, stay tuned for updates on the tax front, but expect higher taxes all around. And be sure to consult a tax professional and your financial advisor before making any major decisions.

Debra Taylor, CPA/PFS, Esq., CDFA, writes on tax and retirement planning for Horsesmouth, an independent organization providing unbiased insight into the critical issues facing financial advisors and their clients.