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Last minute tax tips for 2015

With limited exceptions, a taxpayer's opportunity for controlling income tax liabilities for 2015 expires on December 31. Here are a few ideas to consider before the year closes.

Accelerate deductions, defer income. You may be able to pay real estate taxes early and delay a bonus, for example.

Bunch deductions. Push deductions into the tax year that you expect to be able to itemize them, if you will take the standard deduction in other years. Some expenses, such as medical costs, have floors on deductibility—10% of AGI for most taxpayers, 7.5% for those 65 and older. Bunching those expenses into a single year may create a deduction that otherwise would not be large enough to exceed the floor.

Contribute to charity. Make your final charitable gifts early, to avoid ambiguity about which tax year they belong in.

Maximize retirement plan contributions. For 2015, up to $18,000 may be deferred to a 401(k) or 403(b) plan. An additional catch-up contribution of $6,000 is permitted for those 50 and older.

Check for AMT exposure. Upper-income taxpayers have to calculate their income tax liability, in two ways. The regular way has a top marginal rate in 2015 of 39.6% and lots of allowable deductions. The Alternative Minimum Tax (AMT) has two brackets, 26% and 28%, and it provides for far fewer deductions. Taxpayers pay the higher of the two tax figures.

Family gifting. The annual exclusion from federal gift taxes in 2015 is $14,000 per donee. The exclusion expires at the end of the year, and it can't be carried forward if it is unused.

Portfolio check. Tally your gains and losses for the year to see where you stand. Tax consequences shouldn't drive portfolio management decisions, but they do need to be taken into account. Tax efficiency matters.

Capital gains and losses for the entire tax year are netted against each other, according to these rules:

1. Short-term losses are netted against short-term gains.
2. Long-term losses are netted against long-term gains.
3. If one of these is a gain and the other is a loss, they are netted.
4. Any resulting short-term gains are taxed as ordinary income. Any resulting long-term gains from securities sales are taxed at 15%. At some income levels, the rate is boosted to 20%, and at still higher levels a 3.8% surtax applies, for a maximum capital gains tax rate of 23.8%.
5. Up to $3,000 of net capital losses may be deducted from ordinary income. Short-term losses are used up first, then long-term losses.
6. Unused capital losses may be carried to future years until death.

The conventional wisdom resulting from these rules is that long-term gains are better than short-term, because they have a lower tax rate. Short-term losses are better than long-term losses, because they shelter income at a higher tax rate.

Consult with your tax advisors to learn more.

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