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Futures

A no-nonsense newsletter from The Dayton Foundation for estate planners and financial advisors

Tax Planning for 2015: Help Your Clients Start Now to Save

By Karen O. Crim, CPA, Tax Senior Manager, McGladrey LLP

It's not too early to begin tax planning for 2015. This is the time of year that many clients ask me what they can do to save on their taxes. Generally there is not much, if anything, that can be done after the end of the year to reduce their tax bill for the prior year. There are plenty of planning opportunities available for 2015, however, and the 2014 tax return is a good starting point for 2015 tax planning.

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Consider Gifts to Charity

Charitable giving is one of the most flexible tax planning tools. For clients who are charitably inclined, giving to charity can provide not only significant tax deductions, but also the satisfaction of doing good. Because a client controls the timing of a gift to best meet his or her needs, well-planned charitable giving can be a versatile tool. However, various limits exist that could reduce the tax benefits of the donation.


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Outright gifts of cash (which include donations made via check, credit card and payroll deduction) are the easiest. Deductions for cash gifts to public charities, including a fund of The Dayton Foundation, can't exceed 50 percent of a client's adjusted gross income (AGI). The AGI limit is 30 percent for cash donations to nonoperating private foundations. Contributions exceeding the applicable AGI limit can be carried forward for up to five years.

It's important to be aware that the tax savings may be less if a client is subject to the alternative minimum tax (AMT). Charitable contribution deductions are allowed for AMT purposes, but if a client is in the 39.6 percent tax bracket for regular income tax purposes and in the 28 percent tax bracket for AMT purposes, the deduction may be worth only 28 percent instead of 39.6 percent.

Publicly traded stock and other securities held more than one year are long-term capital gains property, which can make one of the best charitable gifts. Why? Because a client can deduct the current fair market value and avoid the capital gains tax if the property is sold. This will be especially beneficial to taxpayers facing the 3.8 percent net investment income tax or the top 20 percent long-term capital gains rate.

Donations of long-term capital gains property are subject to tighter deduction limits: 30 percent of AGI for contributions to public charities and 20 percent for contributions to nonoperating private foundations. A client also shouldn't donate stock that's worth less than his or her basis. Instead, the stock should be sold in order to deduct the loss and then donate the cash proceeds to charity.

Take Steps to Avoid AMT Liability

Tax time is a good time of year for clients to identify the reasons behind their 2014 tax bill, such as the timing of income and deductions, as well as AMT triggers, and determine whether they can take actions to avoid the same outcome for 2015. Many deductions used to calculate regular tax aren't allowed under the AMT and thus can cause AMT liability. The most commonly encountered deductions include state and local income tax, property tax, interest on home equity debt not used to improve a principal residence, investment expenses, professional fees and unreimbursed employee business expenses.

Some income items also might prompt or increase AMT liability, including long-term capital gains and dividend income, accelerated depreciation adjustments and related gain or loss differences when assets are sold and tax-exempt interest on certain private-activity municipal bonds. In certain situations, exercising incentive stock options (ISOs) can produce significant AMT liability. So if an analysis of a client's 2014 tax return indicates any of these items of income or deduction triggered the AMT, steps should be taken to avoid repeating the same pattern in 2015.

If a client is subject to the AMT for 2015, he or she should consider accelerating income into 2015 and possibly benefitting from the lower maximum AMT rate. Deferring expenses that can't be deducted for AMT purposes also may allow the

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preservation of those deductions. Commonly deferred expenses are the fourth quarter state and local estimated tax payments. In addition to income items mentioned previously, the timing of other income items that may be controlled include bonuses, consulting or other self-employment income, U.S. Treasury Bill income and retirement plan distributions, to the extent they aren't required for other purposes.

What should a client do if deductions can no longer be itemized? This often occurs when taxpayers no longer have home mortgage interest or have downsized their home, thus reducing property taxes. If a client is close to the standard deduction amount, consider bunching the itemized deductions into one tax year then switching to the standard deduction in the following year. Two of the most common ways to accomplish the bunching of itemized deductions are to pay property taxes that are due shortly after the beginning of the following year on or before December 31 and to prepay charitable contributions by transferring cash or appreciated publicly traded securities to a fund at The Dayton Foundation.

Using the Charitable Checking Account[SM] Service for Year-End Planning

For my clients who don't know which charities they want to benefit but would like to start making large contributions now to lock in a tax deduction for 2015, I often suggest that they consider opening or adding to an existing Charitable Checking Account[SM] (CCA) at The Dayton Foundation. The CCA Service offers control over the timing of a client's tax deduction, which is obtained in the year the transfer of cash, publicly traded securities or other appropriate assets are made. A client also controls when the funds are distributed from a CCA to eligible charitable organizations.

Additionally, the CCA Service makes recordkeeping considerably easier. The acknowledgment received from The Dayton Foundation when a gift is made to a CCA is all that is necessary. There is no need to obtain separate acknowledgments from every charity receiving a grant of $250 or more. This is especially helpful for individuals who make numerous contributions throughout the year. The Foundation provides quarterly and end-of-year statements of activity, plus donors can go online to Donor Express to review their gift and grant history, contribute to an account or make a grant to support charitable organizations at home or anywhere in the United States, even internationally. ❧

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Note: Solutions will differ from case to case. The above does not constitute professional financial or tax advice.

Karen O. Crim, CPA, is a Tax Senior Manager for McGladrey LLP, where she specializes in tax services to not-for-profit organizations and private foundations. She has over 29 years of experience in all aspects of taxation.

Save These Dates – Continuing Education Opportunities

The Dayton Foundation is sponsoring the 37th Annual KeyBank Estate Planning Seminar, featuring Charles A. "Clary" Redd, partner in the St. Louis, Missouri, office of the law firm Stinson Leonard Street, LLP. This day-long seminar is scheduled for Tuesday, May 5, and professional continuing education credits are pending.

Also, The Dayton Foundation is cosponsoring with the Partnership for Philanthropic Planning, University of Dayton and Wright State University a free advisor seminar on Tuesday, June 2, from 2:30 to 5 p.m. Bryan Clontz, CFP, President of Charitable Solutions, LLC, will present "Creative Charitable Planning with Non-Cash Assets: From Acceptance to Disposition." Both CLE and CEU continuing education credits have been approved.

Registration information for both of these advisor seminars will be sent to you soon.

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Sign up online at www.daytonfoundation.org/maillist.html to start receiving *Futures* in a new e-newsletter format through Constant Contact.

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donor families who have stepped forward to become the 2014-2015 "I Believe!" Partners of The Dayton Foundation. Their commitment underwrites a full year of Dayton Foundation publications, thereby freeing resources for the Foundation's other community work.

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