Your Trusted Financial Advisor℠
COMPASS CAPITAL CORPORATION
Registered Investment Advisor

Five Tax **Don'ts** Before Year End

As we begin the fourth quarter of 2014, it is time to review the last several months and think about what can be done to lower your taxes for 2014. If you enjoy paying taxes, you can stop reading. Otherwise, let's try to save some money right now!

Here are five tax tips to consider before year end.

1 Don't forget to maximize your retirement saving contributions.

If you turned 50 this year, you are entitled to a catch up contribution of $5,500 for your 401(k). It is not too late to catch up for 2014. Also anyone with compensation can contribute to an IRA. It's the deductibility of the IRA contribution that is subject to income limits.

IRAs & Defined Contribution Plans	2014
IRA Contribution Limit	$5,500
IRA Catch-Up Contributions	$1,000
SEP Maximum Contribution	$52,000
SIMPLE Maximum Contributions	$12,000
Catch-up Contributions	$2,500
Elective Deferrals (401(k) & 403(b))	$17,500
Catch-up Contributions	$5,500
Defined Contribution Limits	$52,000

Source: Internal Revenue Service

2 Don't forget to review where you are with capital gains and losses.

Under the tax law there are now four long-term capital gain tax rates (0%, 15%, 18.8% and 23.8%). In the past, it was generally beneficial to tax loss harvest to erase your gains. For 2014 and beyond, loss harvesting is not always going to be the best answer. You may want to pay tax on long gains with a 15% tax rate knowing that if you wait until next year the long term capital gain rate will be 23.8% due to higher expected income.

Long Term (L/T) Capital Gain Tax Brackets		
Individual threshold	Married threshold	L/T capital gains rate
Up to $36,900 in taxable income	Up to $73,800 in taxable income	0%
$36,901 to $200,000	$73,801 to $250,000	15%
$200,001 to $406,750	$250,001 to $457,600	18.8%
Over $406,750	Over $457,600	23.8%

3 Don’t forget to get your charitable donations done by year end.

Contributions are deductible in the year made. Thus, donations charged to a credit card before the end of 2014 count for 2014. This is true even if the credit card bill isn’t paid until 2015. Also, checks count for 2014 as long as they are dated and mailed in 2014. You can also consider gifting appreciated securities instead of cash, which is very tax inefficient. Gifting stock with a fair market value of $3,000 with a cost of $1,000 could save $476 in tax ($2,000 * 23.8%) plus you still receive a charitable deduction.

4 Don’t forget to consider doing a Roth Conversion by December 31, 2014.

Roth conversions don’t always carry a tax bill. You can mitigate the tax bill by pairing tax strategies. For instance, you could increase your charitable deductions to match the amount of your Roth conversion. Maybe a passive activity with suspended losses becomes unsuspended. That may be an opportune time to consider a Roth conversion. Remember there are no income limits for Roth conversions. You have until October 15, 2015 to decide if the conversion makes sense, and you have an out. It’s called a “recharacterization.” You can reverse the Roth conversion as if it never happened.

If you are contemplating a large Roth conversion, say $100,000, consider setting up two Roth accounts, maybe one all equity ($50,000) and the other all fixed income ($50,000). Come October 15, 2015, if both Roth accounts are up in value, you would probably want to stick with the conversion. If for instance the Roth IRA with fixed income went down materially in value (to $40,000), you could recharacterize back to a traditional IRA and then reconvert at the lower value. Taxes are based on the amount converted.

However, you cannot convert again until the later of 30 days from the recharacterization or January 1 of the year following the conversion.

5 If you are planning to visit with your advisor before year end don’t forget to bring your tax return to the meeting.

Discuss what has changed or is going to change in your personal and financial life. If you are contemplating the suggestions above or another tax planning idea, it is important to understand the tax consequences before you do the transaction. As an example, if you are considering a stock option exercise, when should you do it? This year or next? You have to run the numbers.

Tax planning is a year round exercise that requires active participation. If you want to lower your tax bill, work with your tax quarterback so you can always call the right play.

141749 (10/14)