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The Mosaic Financial Group LLC
Your Wealth Management Partner

15 Midyear Tax Planning Moves You Can Make In '15

You've just put your 2014 tax return to bed, but there's no rest for the weary. It's already time to focus on tax planning for 2015. Appropriately enough, here are 15 midyear tax-saving ideas to consider:

1. Harvest losses from securities sales. If you cashed in stock market winners earlier in the year, now's a good time to start filling up the loss side of the ledger. Your capital losses will completely offset capital gains realized in 2015, plus up to $3,000 of highly taxed ordinary income.

2. Recognize low-taxed capital gains. Conversely, if you sell securities qualifying as long-term capital gains, the maximum tax rate is only 15% or 20% if you're in one of the top two ordinary income tax brackets. But keep in mind that some upper-income investors also may have to pay a surtax of 3.8% on capital gains.

3. Take the 0% tax rate to the max. If you expect 2015 to be a low-income year (for example, you may incur a substantial business loss), a portion of your long-term capital gains may qualify for a rock-bottom 0% tax rate that applies to investors in the regular 10% and 15% tax brackets. When possible, realize investment income up to the top threshold of the 15% rate. Also, consider this strategy for your children.

4. Sidestep the wash sale rule. If you acquire securities that are substantially identical, within 30 days of selling securities at a loss, you can't deduct the loss. But this harsh "wash sale" result can be avoided by waiting at least 31 days to buy back the same securities. Alternatively, you could buy the securities first and wait at least 31 days before selling your original shares.

5. Invest in dividend-paying stocks. Most stock dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, you must hold the shares for at least 61 days.

6. 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. In addition to stretching out tax payments over time, you might reduce the effective tax rate if you stay below the thresholds for higher capital gains rates and the 3.8% surtax.

7. Contribute to a 401(k). Reduce your 2015 tax liability by increasing contributions to a 401(k) plan where you work. For 2015, the maximum deferral is $18,000 ($24,000 if age 50 or over). Not only do you avoid tax on the contributions, the money in your account compounds tax-deferred until you withdraw it during retirement.

8. Convert to a Roth IRA. If you have funds in a traditional IRA, you can convert some or all of those funds to a Roth IRA. Roth distributions in the future will be tax-free if they meet a few conditions. But you don't have to

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Spotlight On... Susan Hong

Hello, my name is Susan Hong and I am a member of the Mosaic Financial Group's tax advisory team. I joined Mosaic as an intern in February, 2013 and accepted a full time position a few months thereafter. I truly enjoy my position at Mosaic, working with such a talented group of colleagues on projects that provide financial and tax services to our clients.

My journey from a background in biology (B.S. in Biology from Korea University; M.S. in Food Science and Technology from Iowa State University; and 3 years as a Food Microbiologist at the U.S. Department of Agriculture / Food Safety and Inspection Service) has been a very meaningful one. My transition to accountancy started with enrolling in the M.S. in Accountancy program at Loyola University Chicago, and advancing to working as an intern at UBS in the Wealth Management Department and Illinois Tool Works (ITW) in the Tax Department, and subsequently earning a CPA.

I am blessed to have Mosaic as a place for continued growth as a tax professional. I speak English and Korean and really enjoy experiencing different international cultures, music, foods, and traveling. My husband, daughter, and son are my biggest cheerleaders!

Keep Eyes On Estate Tax Proposals

In his 2015 State of the Union address, President Obama laid the groundwork for several significant estate tax changes, which were covered in greater detail in the administration's budget plan for the 2016 fiscal year. Although these proposals are a long way from being enacted, it makes sense to know the key concepts now. Here are several:

Capital gains: When you inherit assets, you currently benefit from a "step-up in basis" to the fair market value (FMV) of the assets on the date of death. Say you receive stock acquired for $5,000 that's worth $15,000 when you inherit it—your basis is $15,000. Sell the shares for that amount and you'll owe nothing in taxes. The $10,000 appreciation in value is tax-free forever.

Under the president's proposal, this "trust fund loophole," so-called because it's often used in conjunction with trusts, would be closed. Instead, you would owe tax on the difference between the original basis and the FMV on the date of death through a "deemed sale." In our example, that would mean a taxable gain of $10,000. The proposal does allow a taxable exclusion on such gains of $100,000 per person ($200,000 for a married couple).

Estate and gift tax exemptions: The president would roll back the estate and gift tax exemptions to 2009 levels. Thus, the $5.43 million exemption in 2015 (inflation-indexed increases have moved it up from an original $5 million) would revert to a $3.5 million exemption, and so would the generation-skipping tax exemption. And whereas the current exemption can be used for a combination of gifts made while you're alive and at your death, the new $3.5-million exemption would apply only to estates. There would be a separate $1-million lifetime exemption for gift taxes. Finally, the top estate tax rate would be raised from 40% to 45%.

Grantor retained annuity trusts: The grantor retained annuity trust (GRAT) has been in the crosshairs of the Obama administration for some time. With this estate planning technique, you create an irrevocable trust for a specified term, funding it with assets, and then an annuity is paid to you based on IRS-approved interest rates. Eventually, the remaining assets go to your beneficiaries tax-free.

The president's proposals would curtail the tax benefits by (1) requiring a minimum term of 10 years, (2) imposing a minimum remainder interest of 25% of the assets transferred to the trust, or $500,000, whichever is greater, and (3) prohibiting the grantor from participating in a tax-free exchange of assets with the GRAT. These changes effectively would eliminate future GRATs.

Of course, you shouldn't overhaul your estate plan based on these proposals, but do be prepared to update your plan if it looks as if they may become law. ●

Compare Minor's Account To 529 Plan

Until the Section 529 college savings plan came along, parents looking ahead to the high cost of college for their children often set up accounts under their states' Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). But the broad benefits of 529 plans have made them more popular than UGMAs and UTMAs in recent years. Here's how the two saving vehicles compare:

UGMA/UTMA accounts: These are custodial accounts to which you contribute money for a minor's benefit. As the custodian, you control the investments until the child reaches age 18 or 21, depending on the laws of your state.

However, for tax purposes, any earnings on account assets are taxed to your children at their lower tax rates. For 2015, the first $1,050 of earnings in a custodial account is tax-free and the next $1,050 is taxed at the child's rate. But earnings beyond $2,100 are generally subject to the so-called kiddie tax—they're taxed at the parents' top rate. And whether you pay or your child pays that tax, it creates an annual drain on the account during the years you're trying to build up funds for college.

Section 529 plans: With this type of state-sponsored plan, you contribute to an account for which you name your child as beneficiary. Then you're in charge of how the money is invested (though only among the options the plan offers, and the ability to switch investments is limited). Unlike in a custodial account, earnings from investments aren't taxed while they're accumulating. And distributions from the plan that go to pay qualified college expenses, such as tuition, also aren't taxed.

Those provisions give 529 plans a dramatic advantage over a custodial account. There aren't any kiddie tax complications with a 529 because the

How To REALLY Get Ready For Your Retirement

According to the U.S. Census Bureau, about 77 million " baby boomers"—people born between 1946 and 1964—were alive when the first wave of boomers turned age 65 in 2011. Now, more than 10,000 baby boomers celebrate their 65th birthdays every day, and by 2030 those who are 65 and older will represent an estimated 20% of the entire U.S. population.

If you're part of this demographic surge, it's essential to plan ahead for your pending retirement, which is likely to last much longer than those of previous generations. Someone who's 65 now can expect to live to 84.3, on average, according to the National Center for Health Statistics. So you easily could live for 20 years or longer after you retire.

How can you prepare financially for what's ahead? While there are no guarantees, these three ideas can be sound strategies for the future:

1. Slide into retirement gradually. Retirement doesn't have to be like a bandage that you rip off quickly. Staying on the job longer has obvious financial advantages. If you're still earning a paycheck, you probably won't need to take early Social Security benefits or distributions from your retirement plans or IRAs, and waiting longer to begin your withdrawals will mean bigger payouts. But a gradual transition to retirement also may help in other ways. Many people simply aren't able to cope with such a drastic lifestyle change in one fell swoop.

If you've been an executive, or you're a business owner or partner, you may be able to stop working full time but continue as a consultant. That can help your company, too, and you may retain some valuable fringe benefits. In addition, when you work part time, you can continue to contribute to retirement plans and IRAs.

2. Time your Social Security benefits. Deciding to keep working at least part time can affect when you file to begin receiving Social Security retiree benefits. You can start as early as age 62, but the monthly amount you receive then will be about 25% less than if you'd waited until the normal retirement age for full benefits (age 66 for most baby boomers). If you delay benefits even longer, until age 70, your monthly check will be about 8% more than the monthly amount you would have received at full retirement age.

Deciding when to begin benefits requires an in-depth analysis of your circumstances. Also, keep in mind that you may have to forfeit some Social Security benefits if you're still working before your full retirement age. Usually, it doesn't make sense to apply for benefits if you then have to give back part of the monthly payout.

3. Take systematic withdrawals. When it comes time to start taking distributions from the assets you've accumulated—and the longer you can postpone this, the better—it's wise to be systematic about it. One traditional method is to use a 4% solution, withdrawing 4% of your account balances in the first year and then adjusting subsequent distributions based on market performance, inflation, and other factors. Yet there are limitations to that method, and we can work with you to assess your personal situation and create a customized, systematic approach that works for you.

However you proceed, there are a few basic guidelines about when to tap each of your sources of retirement income. It's normally best to start with taxable accounts, such as stock and mutual fund holdings that aren't in tax-advantaged retirement accounts. Generally, these distributions will result in long-term capital gains, taxed at a maximum rate of 15% for most investors and 20% if you're in the top tax bracket for ordinary income. Then you can take money from traditional IRAs and retirement plans such as 401(k)s; that income will be taxed at your ordinary income rates. You'll likely want to save Roth IRAs for last. Unlike with other retirement accounts, which generally require you to take minimum withdrawals after age 70½, you can leave your money in a Roth as long as you like, and distributions from these accounts generally won't be taxed.

These three strategies aren't all you'll need to consider in positioning yourself for a long retirement. But making a gradual transition into your retirement years, figuring out the best timing for your Social Security benefits, and tapping your assets in a logical order can go a long way toward improving your chances for a successful retirement. ●

growth in the account you've set up for your child isn't taxed at all during the years leading up to college. And whereas you may owe capital gains tax when you sell investments in a custodial account to pay college expenses, that doesn't happen when you take money from a 529 to pay for college.

In addition, if your kids have a custodial account, they get control of the money once they reach the age of majority in your state—and they can use it any way they want, not just for college. That doesn't happen with a Section 529 plan—you stay in control of the account regardless of the age of the beneficiary.

A final disadvantage of a custodial account is that it may hurt a student's eligibility for federal financial aid because it counts as that student's asset, not that of the parents. Section 529 plans, in contrast, are treated as if they belong to the parents and aren't likely to affect financial aid eligibility.

So while there may be situations in which a custodial account makes sense in saving for college, in most cases a 529 plan will work better. ●

Passing More Than Money To Your Heirs

In the 2006 film *The Ultimate Gift*, spoiled young Jason Stevens expects a large inheritance from his eccentric grandfather. But when the man passes away, his will stipulates that Jason will get the money only after he accomplishes 12 unusual, demanding tasks. Each is designed to change the way the young man views wealth, human relationships, and the meaning of life.

You're not likely to demand that kind of quest from your heirs. These days, though, it's not unusual to include provisions in a will or estate plan that go beyond financial wealth and relate to personal or social values. It may be possible to encourage your children or grandchildren to continue a family tradition of philanthropy, for example, or to understand the important role your ethnic heritage has played in your life.

But it's tough to pass along your values if your heirs don't know who you really are. Whereas we once routinely gained wisdom and perspective from our elders, that opportunity often gets lost in the shuffle of fast-paced contemporary life. Yet young people still long to comprehend what their families stand for and to feel a sense of belonging and purpose.

Family storytelling is the most natural and direct means of imparting essential elements of your identity. Around the family table, young people can share in the evolution of your attitudes, traditions, and values. When were you happiest? How did you first experience kindness, self-sacrifice, ambition, and generosity? What were the things that mattered to you as a young person, and how have your views changed? What were the turning points in your life, and what do you wish you'd done differently? Though you may worry young people will be bored by your stories, chances are they'll be engaged, especially when the conversation involves them, too. Listening carefully as they relate their own experiences can help you gauge their values and ambitions.

Of course, just helping your heirs get to know you doesn't ensure they'll carry on your passions. Yet there are ways to expose your children and grandchildren to organizations that matter to you, and to get them involved in your cherished causes. You can take them along when you attend meetings and events, and make sure they connect with key people. Your estate plan can help too:

- Set aside assets to help heirs visit your family's country of origin or places significant to your family's heritage
- Provide funding for family members' business or educational development
- Launch a 501(c)(3) nonprofit organization (or establish a community foundation "support organization") and name family members to the board of directors
- Establish a charitable remainder or lead trust that links philanthropic and financial interests. This can become a donor advised fund upon your death.

Create a donor-advised fund and let younger family members recommend grant recipients

Discussions with your family can form the foundation of a values-based blueprint. We can help you start these conversations and work with you and your attorneys to create an estate plan that incorporates your goals. ●

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convert all at one time. Instead, stagger taxable conversions over several years to lessen the tax bite.

9. Sell the old homestead. The tax law allows you to exclude tax on a gain of up to $250,000 for single filers and $500,000 for joint filers if you've owned and used a home as your principal residence at least two of the past five years. Your gain also is exempt from the 3.8% surtax.

10. Rent out a vacation home. You can write off certain rental activity costs, plus depreciation, but be careful: If your personal use of the rental home exceeds the greater of 14 days or 10% of the days the home is rented out, your deductions are limited to the amount of your rental income.

11. Support your college grad. Generally, you can claim a $4,000 dependency exemption for a child graduating from college in 2015 if you provide more than 50% of the child's annual support. Figure out the amount of support needed to put you over that mark.

12. Dust off charitable donations. Don't toss 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.

13. Send your kids to camp. If your under-age-13 children attend a day camp while you (and your spouse, if married) work this summer, you may qualify for the dependent care credit. However, the cost of overnight camp isn't eligible.

14. Adjust your withholding. Check to see whether you're having enough income tax withheld from your paychecks. Make necessary adjustments so you don't have to pay an "estimated tax penalty" in 2015.

15. Give 'til it hurts. Finally, under the annual gift tax exclusion, you can give up to $14,000 to any family member in 2015 free of gift tax. This reduces the size of your taxable estate for the future. ●