Year-End Tax Tips for Individuals

The year’s end means more than a new calendar: it’s your last chance to take advantage of many tax breaks.

As 2015 disappears, we offer you this list of tax changes and strategies, courtesy of CCH (a Wolters Kluwer business).

Tax Planning Tips

Individual income tax rates of 10, 15, 25, 28, 33, 35 and 39.6 percent remain in place for filing next April. (The more you made, the greater your percentage.) The standard deduction for 2016 income will stay the same: $6,300 if you file your taxes using the status single or married filing separately. Married joint filers still receive a $12,600 deduction; head of household filers’ deduction jumps $50, to $9,300.

Year-end tax-saving tactics include: spread recognition of your income between years by postponing year-end bonuses and maximizing both deductible retirement contributions and allowable retirement distributions for this calendar year, coordinating capital losses against the sale of appreciated assets, postponing redemption of U.S. Savings Bonds, and delaying your year-end billings and collections.

You may also want to defer corporate liquidation distributions (full cash-value payment for all a company’s stock you hold) until 2016, pay your last state estimated tax installment in 2015 and pre-pay real estate taxes or mortgage interest.

Life changes. Did you get married or divorced? Have a child? Buy a home? Change jobs or retire? A change in employment, for example, may bring severance pay, sign-on bonuses, stock options, moving expenses and COBRA health benefits, among other changes that affect your taxes.

Additionally, try to predict any life events in 2016 that might trigger significant income or losses, as well as a change in your filing status.

Retirement savings. You can contribute up to $5,500 to an individual retirement account or Roth IRA for 2015 and, if you're 50 or older, $1,000 more in catch-up contributions. You also have until April 15, 2015, to make an IRA contribution for 2015. One tax move in this area: Delay until 2016 converting your traditional IRA to a Roth IRA, which incurs taxes.

Giving. You can still make tax-free gifts of $14,000 per recipient (a total of $28,000 in the case of married couples).

Tax-free distributions, up to a maximum of $100,000 per taxpayer each year from IRAs to public charities, have been allowed as an alternative to reporting the income and taking an itemized deduction. You must be 70½ or older to do this.

High earners

If your income is six figures or more, you should anticipate possible liability for the 3.8 percent net investment income (NII) tax calculated on net investment income in excess of your modified adjusted gross income (MAGI). Threshold MAGIs for the NII tax are $250,000 in the case of joint returns or a surviving spouse, $125,000 for a married taxpayer filing a separate return, and $200,000 in any other case.

Keeping income below the thresholds is worth exploring, as is spreading income out over a number of years or offsetting the income with both above-the-line and itemized deductions. Of course, planning for the NII tax requires a very personalized strategy.

The tax rate on net capital gain is no higher than 15 percent for most taxpayers. Net capital gain may not be taxed if you're in the 10 or 15 percent income tax brackets. A 20 percent rate on net capital gain can apply if your taxable income exceeds the thresholds set for the 39.6 percent rate ($413,200 if you file single, $464,850 for married filing jointly or as a qualifying widow[er], $439,000 for head of household and $232,425 for married filing separately).

Wash sale rules. These cover sales of stock or securities in which your losses are realized but not recognized for tax purposes because you acquire substantially identical stock or securities within 30 days before or after the sale.

Alternative minimum tax (AMT). The AMT is now "patched," which permanently increases the exemption amounts and indexes those amounts for inflation. For 2015, the exemption amounts are $53,600 for single individuals and heads of household, $83,400 for married couples filing a joint return and surviving spouses and $41,700 for married couples filing separate returns.

You can take several steps to reduce the AMT's effect on your tax liability. Avoid certain deductions, including the accelerated depreciation deduction on real property or expensed research, among others. You might also avoid exercising incentive stock options in a year in which you're subject to AMT.

Pease limitation. This reduces a higher-income taxpayer's allowable itemized deductions by 3 percent of the amount (up to 80 percent), with the reduction kicking in after certain income thresholds. For 2015, Pease thresholds are $309,900 for married couples and surviving spouses, $284,050 for heads of households, $258,250 for unmarried taxpayers and $154,950 for married taxpayers filing separately.

Related to the Pease limitation is the personal exemption phase-out (PEP). The threshold income amounts for the PEP are the same as those for the Pease limitation.

Health insurance

The Affordable Care Act requires that you have minimum essential health coverage or make a shared responsibility payment, unless you're exempt. On 2014 returns filed in 2015, taxpayers reported if they had minimum essential coverage; that reporting requirement will again be on 2015 returns filed in 2016.

If you may be liable for a shared responsibility payment, carefully review the significant number and variety of exemptions available. You may also be able to project the amount of any payment. Closely related are changes to the medical expense deduction, health flexible spending arrangements (and similar arrangements), insurance coverage for children, and more.

Potential legislation

As of mid-November, tax bills pending in Congress included a package of tax extenders, revisions to the Affordable Care Act and more. Lawmakers *might* renew them either before year-end or early in 2016. Incentives include:

Exclusion of cancellation of indebtedness on principal residence. Allows you to exclude from income the cancellation of mortgage debt of up $2 million on a qualified principal residence.

Higher education tuition and fees deduction. Provides a maximum $4,000 deduction for qualified tuition and fees at post-secondary institutions of learning, subject to income phase-outs.