www.efallc.com

evergreen
FINANCIAL ASSOCIATES

Fourth Quarter 2015

Guide...Protect...Preserve

15 Of The Best Year-End Tax Moves Left In 2015

As the end of this year approaches, you still have time to cut your tax bill, especially when it comes to your investments and retirement plans. Here are 15 top tax-saving ideas to consider in 2015:

1. Harvest capital losses. This tried-and-true tax strategy for investors still makes sense. By realizing capital losses from securities sales, you can offset highly taxed short-term capital gains, plus up to $3,000 of ordinary income. Any excess loss is carried over.

2. Reap capital gains. Conversely, if you sell securities qualifying for long-term capital gain treatment, the maximum tax rate is only 15% or 20% if you're in the top ordinary income tax bracket. Compare this to ordinary income rates reaching up to 39.6%.

3. Maximize 0% capital gains. Even better than the usual 15% or 20% maximum tax rate, you can benefit from a 0% rate on long-term capital gains up to the top of the 15% tax bracket. For a year in which your income temporarily dips—because of a business loss, for example—this can turn into a bonanza.

4. Minimize the surtax on net investment income. This 3.8% surtax applies to whichever is lower: your net investment income (NII); or the amount of your modified adjusted gross income (MAGI) that exceeds $200,000 for single filers and $250,000 for joint filers. There's still time to take steps to reduce your NII and MAGI for this purpose.

5. Avoid wash sale rule. Under the wash sale rule, you can't deduct a loss from the sale of securities if you acquire substantially identical securities within 30 days of the sale. But the rule easily can be avoided by waiting at least 31 days to acquire similar securities.

6. Sell real estate in installments. Generally, you can defer tax on the sale of real estate if you receive payments over two years or longer. In addition to deferring tax, you can reduce the effective tax rate by staying below the thresholds for capital gains and the 3.8% surtax.

7. Convert to a Roth IRA. If you have funds in a traditional IRA, you might transfer those funds to a Roth, though you will be taxed on the conversion. Future Roth distributions generally are tax-free. Instead of converting all at one time, you can stagger taxable conversions over several years to reduce the tax bite.

8. Bulk up your 401(k). If you increase deferrals to a 401(k) plan, you can reduce the amount of your employment income that's subject to tax. And take advantage of the generous $18,000 deferral limit in 2015 ($24,000 if you're 50 or older). Not only do you avoid tax on the contributions, these amounts compound tax-deferred until you withdraw them during retirement.

9. Don't forget to take required withdrawals from your retirement

(Continued on page 4)

Could Estate Tax Repeal Or Reform Become A Reality?

As Yogi Berra once said, "It ain't over 'til it's over." Although tax legislation enacted in 2012 included several "permanent" estate tax provisions, including a top estate tax rate of 40% and a maximum exemption of $5 million, indexed for inflation ($5.43 million in 2015), there's no guarantee that Congress won't tinker with the law again. In fact, it's a good bet there will be more changes.

Earlier this year, the House Ways & Means Committee got the ball rolling by approving a bill to repeal the federal estate tax. Although the measure passed along partisan lines and appears unlikely to make it into law, it indicates that estate tax reform is back on the table.

The estate tax was repealed in 2010, but just for one year, before being reinstated. Coincidentally, that was the year that New York Yankees owner George Steinbrenner died, costing the government about $600 million in tax revenue.

The new House bill contains another twist. In 2010, although there was no estate tax, another tax break—one that limits capital gains taxes on inherited assets in excess of $1 million—was eliminated for non-spousal heirs. The current bill would set that threshold 20 times higher, at $20 million.

But there's a long way to go before any estate tax changes are formally written into law. We will monitor developments affecting your estate plan.

Mary Jane Callaghan & Mitch Glicksman

NOT FOR DISTRIBUTION OR REPRODUCTION ADVISOR PRODUCTS INC. ©2015 API

Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser.
Fixed Insurance products and services offered by Evergreen Financial Associates are separate and unrelated to Commonwealth.

Three Ways To Defuse Estate Rifts

It's impossible to know what will happen to your family after you're gone, but it's doubtful you're envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it's crucial that yours meets all of the technicalities of your jurisdiction. If you have significant assets you'll probably need to hire an attorney to draw up the document. It's likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won't cover every last trinket you own, and it's a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;
- Details of cemetery plots and funeral arrangements;
- Contacts for legal, tax, and financial information;
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;
- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of

Tax-Optimizing A Retirement Portfolio

Locating investments in the right type of account can make a big difference in your retirement savings and lifestyle.

Here's the story, told through an example of a hypothetical couple —Jodi and Mark — with $1 million in savings. Their tax-advantaged IRA accounts hold $360,000 in stocks and stock mutual funds, plus another $240,000 in taxable bonds. Jodi and Mark's taxable account holds $400,000, with 60% in stocks returning 10% annually in capital gains and 40% in muni bonds yielding 3.6% of income.

To keep it real, let's make these very reasonable assumptions:

- bonds yield 6% of income annually
- stocks return a 10% capital gain annually
- residents of a state with high-income tax
- combined state and federal tax rate of 40% on income
- capital gains rate of 20%

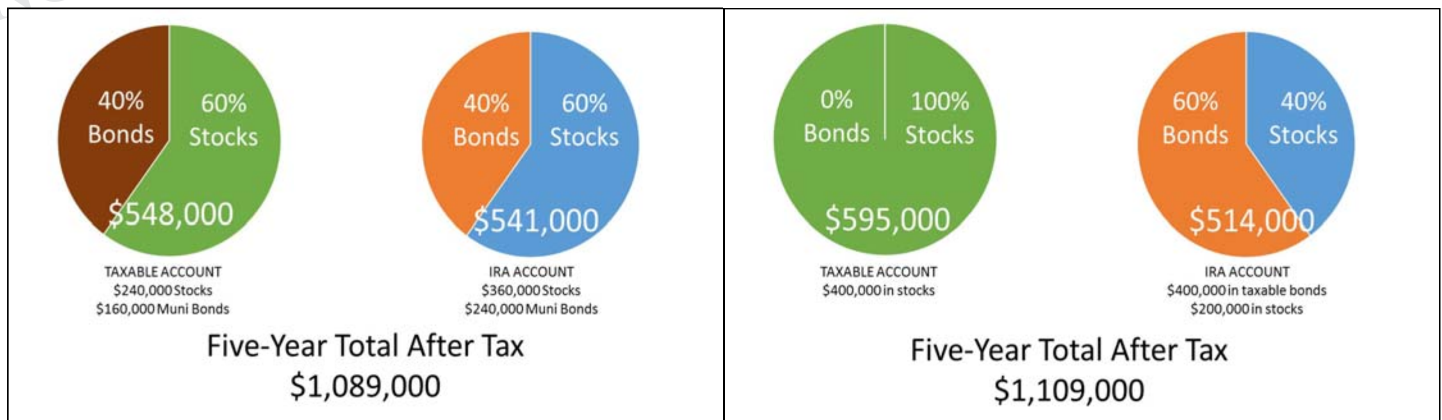
After five years, the after-tax value of the taxable account is $548,000 and the IRA's after-tax value grows to $541,000 — a total of $1,089,000.

But now look at what happens when you apply a little strategic tax planning by employing a strategy to optimize the location of your investments to minimize taxes.

Optimizing for location would place all $400,000 in the taxable account in stocks to benefit as much as possible from the 20% favorable capital gains rate. Why settle for income from the muni bonds of 3.6%, when the after tax-return on stocks annually over the long run has averaged 8%? Meanwhile, optimizing the $600,000 IRAs would mean holding $400,000 in bonds and $200,000 in stocks. Instead of a 60% stock and 40% bond allocation, the IRA would hold the reverse — 40% in stocks and 60% in bonds.

The bottom line: $1,109,000 expected value on the total portfolio after five years versus $1,089,000. Getting an extra 2% — $20,000 — over five years on a $1-million portfolio may seem insignificant, but it compounds without being taxed every year in the IRA. After 10 or 20 years, tax-advantaged compounding becomes so powerful it prompted Albert Einstein to say, "Compound interest is the eighth wonder of the world."

Because of the long-term nature of this strategy, getting started on the right course soon is wise. If you have questions about tax optimization, please contact us. ●



death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

NOT FOR DISTRIBUTION OR REPRODUCTION
ADVISOR PRODUCTS INC.
©2015 API

The Path For Charitable Lead Trusts

One popular tax planning idea is to set up a charitable remainder trust (CRT). Typically, it provides an income tax deduction for the present value of your charitable contribution while removing the assets from your taxable estate.

Depending on your circumstances, however, you might want to consider the opposite approach and set up a charitable lead trust (CLT).

With a CRT, you fund a trust with assets of your choice. The CRT pays out annual income to an "income beneficiary"—this can be you or another family member. After a term of a specified number of years or your lifetime, the assets that remain in the trust go to the designated charity.

The income tax savings are immediate. When you set up a CRT, you're entitled to a deduction for the present value of the remainder interest that will go to the charity, even though that transfer may not happen for years. If you put securities that have appreciated in value into the CRT, you'll never be taxed on that appreciation. This could help you minimize or eliminate gift tax liability on the assets transferred to the CRT. Finally, the assets in the trust won't be included in your taxable estate.

There are two basic versions of CRTs—the charitable remainder annuity trust (CRAT) and the charitable remainder unitrust (CRUT). With a CRAT, the payment to the income beneficiaries must be a fixed amount equal to at least 5% of the value of the amount of your donation. A CRUT, in contrast, also requires an annual payment of a fixed percentage of the trust assets, but in this case the payment is based on their current fair market value.

To keep the assets in your family, you might opt for a CLT instead. In this case, the charity receives the annual income, but the remainder goes to the designated family members. As with a CRT, a CLT may be set up as a charitable lead annuity trust (CLAT) or charitable lead unitrust (CLUT).

Unlike with a CRT, a donation to a charitable lead trust normally won't entitle you to a current income tax deduction. However, if the CLT is structured as a grantor trust whose income is taxable to you, you may claim a deduction for the present value of the charity's interest. These rules are complex, so obtain expert advice.

A properly structured CLT will provide an estate or gift tax deduction for the value of the portion of the trust that's designated for charity. That often makes it possible to transfer a remainder interest to family members without large tax costs. Taking all relevant factors into account, family members may wind up with an amount close to what they would have received through a direct bequest of the assets.

CLTs are not for everyone, but this concept might suit your needs. Consult with your advisors about the opportunity. ●

NOT FOR DISTRIBUTION ADVISOR PRODUCTION ©2015 API

Year-End Tax Moves Left In '15

(Continued from page 1)

plans. If you are over age 70½, you generally have to take required minimum distributions (RMDs) from qualified retirement plans and traditional IRAs each year. The penalty for failing to do so is equal to 50% of the required amount, so don't miss the December 31 deadline.

10. Donate stock to charity. When you donate appreciated property such as stock to a charity, you generally can deduct the fair market value of the property if you've held it more than a year. Thus, the appreciation in value of the stock remains untaxed forever.

11. Watch out for the alternative minimum tax. The AMT often snares high-income investors. Educate yourself about all the adjustments and tax preference items that affect AMT liability. By postponing some preferences to 2016, you might be able to reduce or avoid the AMT.

12. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI) in 2015 (7.5% of AGI if age 65 or older). If you group elective expenses this year you might clear the threshold.

13. Shift income within your family. If you transfer taxable investments to a lower-taxed family member, such as a young child, the family may save tax overall. However, under the kiddie tax, if a child receives investment income of more than $2,100 in 2015 it generally will be taxed at the parents' top tax rate.

14. Rent out a vacation home. Normally, you can write off all of the rental expenses of a vacation home, plus depreciation. However, if your use of a vacation home exceeds the greater of 14 days, or 10% of the days the home is rented out, deductions are limited to the amount of rental income. Stay below this threshold.

15. Give year-end gifts. Last, but not least, you can give each family member up to $14,000 in 2015 without paying gift tax. This annual gift tax exclusion reduces the size of your taxable estate. ●

NOT FOR DISTRIBUTION ADVISOR PRODUCTION ©2015 API

Evergreen Financial Associates, LLC • www.efallc.com
Mitch Glicksman • 8180 North Hayden Road, Suite D203, Scottsdale, AZ 85258 • Toll Free: 888.865.4449 • Phone: 480.951.6536 • Fax: 480.922.3007
Mary Jane Callaghan • 300 C Lake Street, Ramsey, NJ 07446 • Phone: 201.934.1818 • Fax: 201.934.4040

Articles are general information and not intended as advice to individuals.
©2015 API