

Tax Talking Points

A new year also brings new changes in U.S. policies that can have an effect on your current financial situation. Proper planning is essential in minimizing taxes and maximizing returns. Outlined below are key Tax Law and Retirement Plan Changes effective for the year 2015.

Tax Laws in Effect:

Since 2013, top income earners experienced a substantial increase in investment taxes which have greatly impacted their nominal returns.

Increases included the marginal income tax rate increase from 35% to 39.6% for earners with income over \$400,000 (single) / \$450,000 (joint), as well as a higher 20% tax rate on qualifying dividends and long-term capital gains. In addition, investors with adjusted gross income of at least \$200,000 (single) / \$250,000 (joint) also felt the tax effect with a new 3.8% tax on “unearned” net investment income above thresholds due to the Affordable Care Act (ACA). In all, high earners are paying 59% more dividend and capital gain taxes today.

There are several solutions that can counteract some of the tax burden and help benefit you when it comes to your tax planning.

Retirement Plan Contribution Limits:

- ▶ Employee elective deferrals into 401(k), 403(b) and most 457(b) plans have increased from \$17,500 to **\$18,000**.
- ▶ The catch-up contribution limit into a 401(k), 403(b) and most 457(b) plans for those ages 50 and over has increased from \$5,500 to **\$6,000**. The total elective deferral maximum for 2014 for those over age 50 is **\$24,000** for Tax Year 2015.
- ▶ The maximum deferral for defined contribution plans has increased from \$52,000 to **\$53,000**. Defined contribution plans include deferrals by the employee as well as the employer.
- ▶ The limit for annual and catch-up contributions to IRAs remains unchanged at **\$5,500** and **\$6,500** for those over age 50.

Wealth Advisory

Key Points

- Tax Laws in Effect
- Retirement Plan Contribution Limits
- Additional Retirement Plan Changes
- Additional Tax Law Changes



Additional Retirement Plan Points of Interest:

- ▶ Participants with after-tax dollar contributions to their 401(k), 403(b) or 457(b) accounts are now able to separate upon distribution the pre-tax from the after-tax dollars. The after-tax contributions are not the same as a Roth 401(k). These after-tax monies are contributed to the traditional 401(k).
- ▶ Funds from an inherited IRA are not considered retirement funds for purposes of qualifying for an exemption from a debtor's bankruptcy estate. This affects non-spousal beneficiaries.
- ▶ One IRA Rollover per year limit: An individual is allowed only a single IRA rollover per year. The original interpretation of the code was that an individual was allowed one IRA rollover per year per IRA. So, if an individual had two IRAs then they would be able to perform two rollovers per year. This change in interpretation has raised the stakes drastically on using IRA assets as a short term loan.

Additional Tax Law Points of Interest:

- ▶ The annual gift tax exclusion remains at **\$14,000** for 2015.
- ▶ The standard deduction will increase by \$100 from \$6,200 to **\$6,300** for single filers. Married couples filing jointly will increase from \$12,400 to **\$12,600**. For taxpayers who itemized their deductions, the Pease Limitation has increased to **\$258,250** from \$254,200 for single filers and to **\$309,900** from \$305,050 for married couples filing jointly.
- ▶ The personal exemption will increase by \$50 from \$3,950 to **\$4,000**. The Personal Exemption Phaseout (PEP) starting point has increased to **\$258,250** from \$254,200 for single filers and to **\$309,900** from \$305,050 for married couples filing jointly. The personal exemption is completely phased out at income levels of \$380,750 and \$432,400.
- ▶ The Alternative Minimum Tax exemption has been raised to **\$53,600** from \$52,800 for single filers. Married couples filing jointly will have an **\$83,400** exemption in 2015 compared to \$82,100 in 2014.

At Riverview Capital, our priority is to continuously seek opportunities that can enhance and improve your overall financial well-being. Solutions that can alleviate tax law changes are customized to your specific needs. We welcome the opportunity to review and discuss these potential solutions with you. Feel free to call Riverview to determine your options.

Sources:

1. 2014 Thornburg Investment Management, Inc.
2. Tax rate data from IRS
3. Corporate and Municipal bond data were obtained from Barclays

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