Wealth Management
KANE COMPANY
A FEE-ONLY REGISTERED INVESTMENT ADVISOR
Certified Public Accountants and Financial Advisors
Kane Company, P.C. 515-270-2727 Spring 2015

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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2015 Updates

Please be aware of these 2015 tax-related updates:

- Standard Mileage Rates. Business: 57.5 cents per mile; Charitable: 14 cents per mile; and Medical/ Moving: 23 cents per mile.
- The maximum IRA contribution amount remains the same in 2015 at $5,500 ($6,500 if at least age 50). Maximum 401(k) contributions have increased to $18,000 ($24,000 if age 50). The option to convert to a Roth IRA is still available regardless of income, but all conversion taxes must be paid in year of conversion.
- The maximum Simple IRA elective deferral amount is $12,500 in 2015. For participants who are age 50 or over at the end of the calendar year can also make catch-up contributions of no more than $3,000 ($15,500 total).
- The maximum Iowa tax deductible contribution to College Savings Iowa for 2015 is $3,163 per person (participant) per child beneficiary.

The 2015 update of our Registered Investment Advisor Disclosure Brochure is now available, which highlights the qualifications and business practices of our fee-only investment advisory services. Please contact us for a copy.

Please note: our business hours will change to 8:00am to 4:00pm Monday-Thursday and 8:00am to 3:00pm on Fridays from April 16 through December.

Steven L. Kane, CPA/PFS, CFP®

When To Start Social Security?

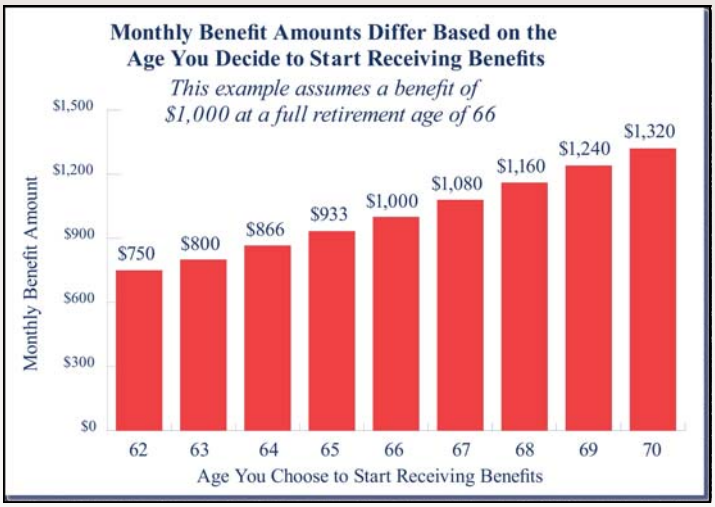
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Raiding A Roth Early? No Woes

What happens if you take funds out of a Roth IRA well before retirement? The tax ramifications might not be particularly dire. Early payouts are frequently tax-free, or mostly tax-free, even if you don't meet the requirements for "qualified" distributions.

It all has to do with the "ordering rules" for Roth IRAs. It's important to get a firm grasp on these rules so you can plan your withdrawals accordingly.

Contributions to a Roth IRA are never tax-deductible, but qualified distributions are tax-free. For this purpose, "qualified" means withdrawals made from a Roth you've had for at least five years if you've reached age 59½; the payout is because of your death or disability; or you use the funds to pay qualified homebuyer expenses (up to a $10,000 lifetime limit).

But sometimes you just can't wait until age 59½ or for the Roth IRA to hit the five-year mark. In this case, and assuming you don't have another viable alternative, you can raid the Roth for the funds you need. Is it a tax disaster? Not usually. The tax is computed under generous rules that can save you from owing anything. Specifically, distributions from a Roth IRA are treated as if they occurred in the following order:

- Roth IRA contributions. Because you didn't get a tax break when you put in this money, you aren't taxed when you withdraw it.
- Contributions from converting a traditional IRA into a Roth. The same principle applies here. Because you already were taxed on the distribution from the traditional IRA that went into your Roth, you can take out those funds without being taxed again.
- Contributions from converting nontaxable traditional IRA balances into a Roth. These, too, aren't subject to regular tax when you withdraw them from the Roth.
- Roth IRA earnings. These, finally, are taxable when withdrawn unless they meet the definition of qualified distributions.

Avoid Emotional Portfolio Withdrawals

The Standard & Poor's 500 stock index is the benchmark against which most investors measure the performance of their portfolios, but that's not such a good thing. For, although the widely-cited index represents the value of America's 500 largest publicly-held companies, it does not represent the performance you should expect from a retirement portfolio.

Prudence demands diversification of a retirement portfolio far beyond 500 blue-chip stocks into multiple asset classes. Surprisingly, so do history, math, and greed.

It turns out that a multi-asset retirement portfolio historically generates returns almost identical to the S&P 500, but without much of the drama.

Since performance data on a broad range of asset classes first became available 44 years ago, investors in a seven-asset portfolio sidestepped the worst of the terrible dips that befell the S&P 500.

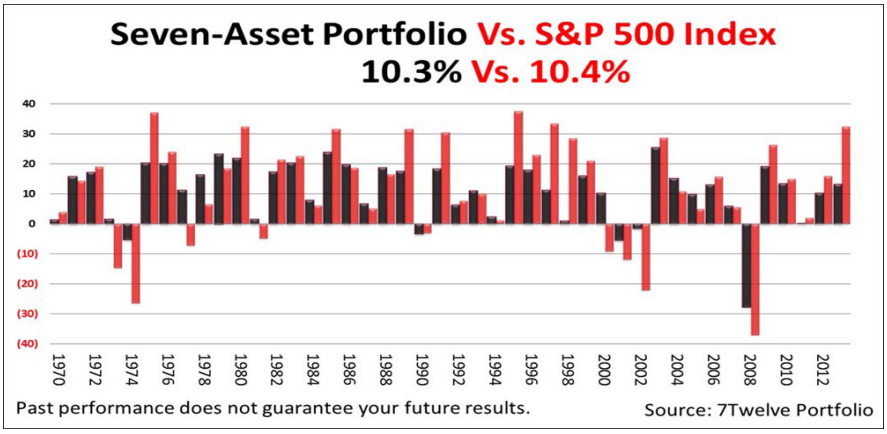
In 2008, for example, when the world financial system teetered on the edge of collapse, the S&P 500 lost as much as 37%. Investors in a multi-asset also suffered frightening losses, but the 28% pullback they suffered was a mere two-thirds of the loss on the S&P 500.

The Math Of Losses In 2008¥

% Portfolio Loss	Portfolios	% Gain Needed To Break Even
-5%		5.3%
-10%		11.1%
-15%		17.6%
-20%		25.0%
-27%	Multi-Asset Portfolio	37.0%
-30%		42.9%
-35%		53.8%
-37%	S&P 500 Index	58.7%
-40%		66.7%
-45%		81.8%
-50%		100.0%
-55%		122.2%
-60%		150.0%
-65%		185.7%
-70%		233.3%
-75%		300.0%

¥Required % Gain = [1 / (1 – % Loss)] – 1

Past performance does not guarantee your future results. Source: 7Twelve Portfolio

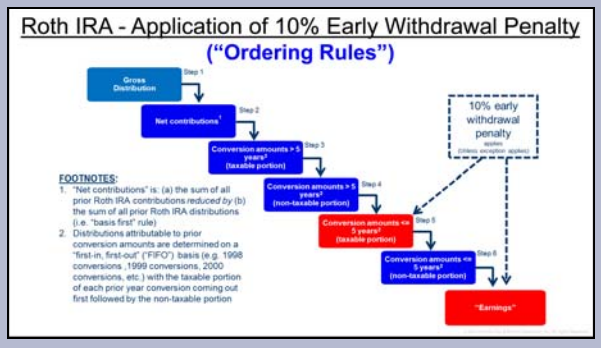


Put another way: The 10.4% annualized return on the S&P 500 versus the 10.3% multi-asset portfolio over 44 years are nearly identical, but investors in the multi-asset portfolio earned their return without experiencing the extreme lows of the S&P 500—losses so large they are more likely to compel selling stocks at market-lows and then missing the next bull-run.

The "math of losses" makes it hard for a portfolio diminished by losses to become whole again. Losing 20.0% of a portfolio requires a 25.0% gain to break even. And the math becomes more tyrannical with larger losses.

Recovering from the 37% loss in the S&P 500 investors sustained at the market bottom in 2008 required a 58.7% gain. To recuperate from its 28% decline sustained by investors in the multi-asset portfolio required a 37% gain.

It pushes investors into scarier situations and makes it more difficult to have faith that nothing—no natural disaster or political, financial or religious crisis or war—will bring down the world and bring an end to the progress of humanity. ●



These ordering rules can work in your favor. For example, suppose you have $100,000 in a Roth you established four years ago—$25,000 in contributions, $50,000 in taxable conversions, $15,000 in nontaxable conversions, and $10,000 in earnings. If you withdraw $35,000, the distribution is treated as having come from the $25,000 in contributions and $10,000 from taxable conversion contributions. So the entire payout is tax-free even though it isn't a qualified distribution.

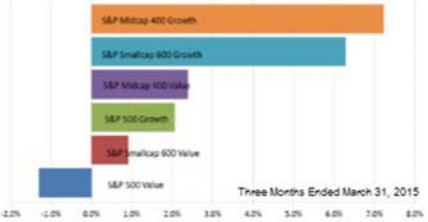
Note that you'll have to pay tax at ordinary income rates for nonqualified distributions. In addition, there's normally a 10% tax penalty on such withdrawals made before age 59½.

Remember that withdrawing funds early from a Roth IRA isn't optimal, because it reduces the amount you'll have available in the future. However, it's comforting to know that you may be able to pull out cash tax-free if you need to. ●

Market Data Bank: 1st Quarter 2015Ψ

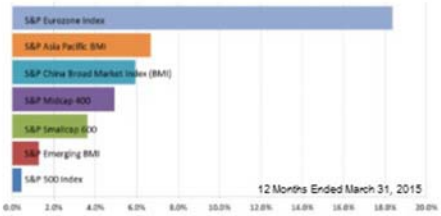
THE BIG PICTURE

Stocks started 2015 by bouncing around before hitting new all-time highs. With oil prices down 50% and strong employment data, in February stocks rallied. By March, with stocks riding high, investors began to worry the Federal Reserve Bank might tighten credit sooner than expected.



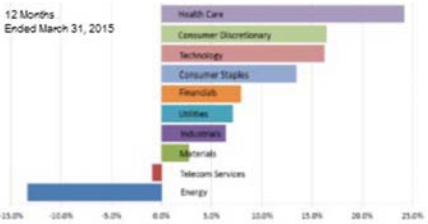
U.S. STOCKS

In the first quarter of 2015, mid-cap and small-cap stocks substantially outperformed large-caps, as they had done during the previous quarter. Riskier stocks regarded as "growth" investments outperformed less volatile value-style investments. The favorite style is generally fleeting over the long run.



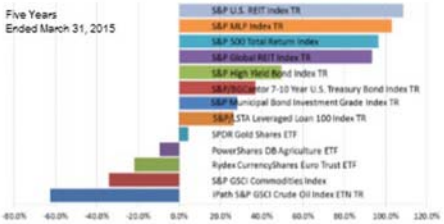
FOREIGN VS. U.S. STOCKS

U.S. stocks have outperformed foreign markets significantly since the global financial crisis. In 2015Q1, European stocks led. Europe's outperformance could presage a change in Europe's relative performance as the U.S. expansion is now over six-years old.



LARGE-CAP U.S. STOCKS BY INDUSTRY

Returns on health care stocks for the 12-month period led the 10 S&P 500 industry indices, followed by consumer-discretionary and technology stocks. Just two of the 10 sectors were hit for a loss over the period, indicating of the broad market rally experienced in the year. Energy stocks were slammed .



ASSET CLASSES±

Real estate was the No. 1 performing asset among a broad array of 13 asset classes for the five years ended March 31, 2015. Second best Master Limited Partnerships. U.S. stocks had five great years. Stocks tied oil prices were crushed and commodities as well as European investments trailed.

S&P 500 INDEX VS. EARNINGS¥

Red squares show expected earnings on the S&P 500 index based on a March 31 forecast by Wall Street analysts, for $121 per share in 2015 and $136 in 2016. The trajectory of earnings growth seems posed continue to propel stocks higher — unless a crisis or really bad unexpected news sets world progress back a bit.

Past performance of investments is not a very reliable indicator of future performance. ±Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves currency and political risk and foreign-country instability. Bonds offer a fixed rate of return while stocks fluctuate. ¥Estimated bottom-up S&P 500 earnings per share as of March 26, 2015 was $120.87 for 2015 and $136.42 for 2016. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through March 31, 2015; and actual earnings data through December 31, 2014.

15 Midyear Tax Planning Moves

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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. ●

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