Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

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New “Tax Extenders” Law Has Even Greater Reach

Unlike past legislation that granted a temporary reprieve to expired and expiring tax breaks, the new “Protecting Americans from Tax Hikes” (PATH) Act of 2015 goes further, modifying some provisions and making several of them permanent.

Permanent Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now have been reinstated for 2015 and made permanent, with some modifications.

Section 179 deduction: The maximum annual Section 179 deduction for buying new or used business property, which had plunged to $25,000 after 2014, is reinstated to $500,000. Once you’ve spent $2 million, the deduction is reduced by a dollar for every additional dollar you spend. These figures will be indexed for inflation in future years.

Depreciation write-offs: This lets you recover the cost of qualified leasehold, restaurant and retail improvements in 15 years rather than 39. This provision is extended retroactively and made permanent.

Child tax credit: Parents can benefit from an enhanced, potentially refundable child credit. Scheduled to expire after 2017, it’s preserved for parents who owe taxes.

American Opportunity Tax Credit: Parents of college students will continue to be able to claim a maximum American Opportunity Tax Credit (AOTC) of $2,500, phased out based on modified adjusted gross income (MAGI). The credit maximum had been scheduled to drop to $1,800 in 2017.

Gifts of conservation property: Under the new law, if you donate property for conservation purposes you can take a deduction of up to 50% of your adjusted gross income (AGI)—or 100% if you’re a farmer or rancher. That contrasts with the usual 30%-of-AGI limit. And you now can carry forward any excess amount for as long as 15 years instead of five years.

Charitable gifts from IRAs: If you’re older than 70½ you again can give a maximum of $100,000 directly from your IRA to a charity without tax liability. That doubles to $200,000 if you give with your spouse.

Research credit: This credit, for spending by your business on research and development, is now permanent. The new law also includes other breaks for small businesses.

State and local sales taxes: This optional deduction, taken in lieu of a deduction for income taxes that you pay, is now a permanent part of the tax code.

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2016 Updates & The End Of Popular SSI Strategy

Please be aware of these 2016 tax-related updates:

- **Standard Mileage Rates. Business: 54 cents per mile; Charitable: 14 cents per mile; Medical/ Moving: 19 cents per mile.**
- **The maximum IRA contribution amount remains unchanged at $5,500 ($6,500 if age 50). The option to convert to a Roth IRA is still available, and all conversion taxes must be paid in year of conversion.**
- **The maximum 401(k) contributions also remain unchanged at $18,000 ($24,000 if age 50) and the maximum Simple IRA elective deferral amount is $12,500 ($15,500 if age 50).**
- **The maximum Iowa tax deductible contribution to College Savings Iowa is $3,188 per person (participant) per child beneficiary.**

Due to new Social Security rules that became law in November 2015, the popular file and suspend strategy will end on April 30, 2016. If you were born on or before April 30, 1950 and would like to discuss this strategy, please contact us. This is the main strategy used when coupled with a restricted application for spousal benefits.

Tax season is in full swing! Our office is open extended hours now through April 15 from 8am-5pm Monday through Friday and 8am-12pm on Saturdays.

Steven L. Kane, CPA/PFS, CFP®

Be Aware Of Your Tax Surroundings

When you trade stocks, bonds, or other capital assets, it makes sense to focus on the "bottom line"—whether you'll make or lose money, and how big your profit or loss may be. But what you're doing has tax consequences, too, and you need to be aware of what they are. And sometimes the likely tax ramifications of a transaction could influence whether you go ahead with it.

For simplicity, this discussion of tax-aware investing will look only at federal taxes, although there may be similar results on the state level.

Start with the basic premise that you can "net" any capital gains and losses you realize during the year, with losses subtracted from your gains. Any excess loss can be used to offset up to $3,000 of ordinary income, which is taxed at rates as high as 39.6%. If you have additional losses, you can carry them over to the following year.

Long-term capital gains are taxed at a maximum rate of 15%, or a top rate of 20% if you're in the top ordinary income tax bracket of 39.6%. To the extent that any of your long-term capital gains are taxed in the two lowest income tax brackets of 10% and 15%, the tax rate is 0%.

That can be especially beneficial to a tax-savvy investor. Suppose you realize a net long-term capital gain of $25,000 from a securities transaction this year. If you have $15,000 of room to spare before you cross into the 25% tax bracket for ordinary income, there will be zero tax on the first $15,000 of gain. The remaining $10,000 then will be taxed at the 15% rate for long-term capital gains. In other words, you pocket $25,000 of gain and pay a total capital gains tax of only $1,500!

Short-term capital gains, meanwhile, are taxed at ordinary income rates. This could have an impact on how long you hold securities, perhaps convincing you to delay taking a profit until it qualifies as a long-term gain. Upper-income investors also may have to pay a 3.8% surtax on some investment income.

"Qualified" dividends from U.S. companies benefit from the same preferential tax rates as long-term capital gains. To qualify, you must have held the stock for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (that is, the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment).

Other types of investments, too, may be eligible for favorable tax treatment. For instance, while payouts from employer-sponsored retirement plans and IRAs are taxed as ordinary income, qualified distributions from Roth IRAs are 100% tax-free after five years. The tax law includes other statutory benefits that may apply to real estate, annuities, master limited partnerships, and life insurance.

Tax aspects are a critical part of your investment decisions. If you can learn how they work and what the potential tax impact is, you may be able to keep more of your investing profits. We can help you determine how to proceed. ●

5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between

What Are Your Retirement Income Sources?

One day you'll wake up and the financial planning objective that seemed so far in the future—your retirement—will be right around the corner. The big question—how can you maintain a comfortable lifestyle through your golden years—will be a real and present concern. To get ready for that day, you can identify the main sources of your retirement income and concentrate on making them grow.

Although every situation is different, you'll probably get your income from a combination of four main sources:

1. Employer-sponsored retirement plans and IRAs. While you're still working, you may be able to make tax-advantaged contributions to a 401(k) plan or to a Simplified Employee Pension (SEP) or to a Savings Incentive Match Plan for Employees (SIMPLE). Generally, the money you put into such accounts will grow untouched by taxes until it's withdrawn during your retirement. In 2016, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over, as well as receive possible matching contributions from your employer.

Similarly, you can benefit from saving in a traditional IRA, a Roth IRA or both. The IRA contribution ceiling for 2016 is $5,500 or $6,500 if you're age 50 or over. If you convert traditional IRA funds into a Roth, you'll owe tax in the year you transfer the money, but the Roth may provide tax-free distributions to you in the future.

2. Investments. Beyond withdrawals from 401(k)s, IRAs, and other such plans, you'll likely need other sources of income to help fill out your retirement "paycheck." For your taxable investments, you'll probably want to diversify among stocks, bonds, mutual funds, exchange traded funds (ETFs), annuities, and real estate, to name several of your main options.

Keep in mind that taxes will erode some of the value of these accounts, now and during retirement. Tax-free municipal bonds or municipal mutual funds can be a useful part of the mix, particularly if your earnings put you in the top income brackets.

3. Social Security. This can be another valuable supplement to other sources of income, but don't expect Social Security retiree benefits alone to be enough to fund a comfortable retirement. Your SS benefits normally will be based on your earnings history, your age, and your date of retirement. Although you can begin receiving reduced monthly benefits as early as age 62, the full retirement age (FRA) for most baby boomers is 66. That's when you can get what the government defines as your full benefit—and the longer you wait, up to age 70, the larger your monthly benefits will be.

If you choose to begin receiving Social Security benefits while you continue to work—but before you reach full retirement age—the amount of your benefits will be reduced by $1 for every $2 you earn beyond an earnings threshold that is $15,720 in 2016. During the year that you will reach FRA but before your birthday, you can earn up to $41,880 without penalty; exceed that amount and you'll lose $1 in benefits for every $3 you earn. But beginning in the month you reach full retirement age, you can earn as much as possible without any reduction in Social Security benefits.

4. Other income sources. Finally, you may be able to rely on income from various other sources, expected or unexpected. That might include inheritances or gifts from family members, a profit from selling your home or other property, insurance benefits, deferred compensation, early retirement packages, and other sources. If you have an interest in a business you might continue getting income even after you stop working, or you might sell your interest.

Any or all of these may have special tax implications you'll need to take into account. Note that you can exclude from taxable income a gain on a home sale of as much as $250,000—or up to $500,000 if you're a joint tax filer.

Once you analyze your situation, you may find that these four income sources will be enough for you to live on comfortably in retirement. But if you see that your projected income may be less than you expect to need, you may have to ramp up your savings, perhaps contributing more to your tax-advantaged retirement plans. We can help you map out a plan that will help you meet your goals. ●

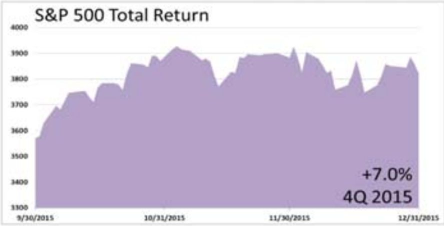
the estates of you and your spouse, also may need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

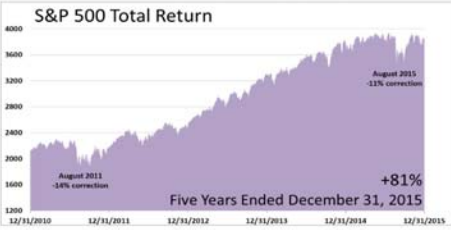
Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

Market Data Bank: 4th Quarter 2015 [Ψ]



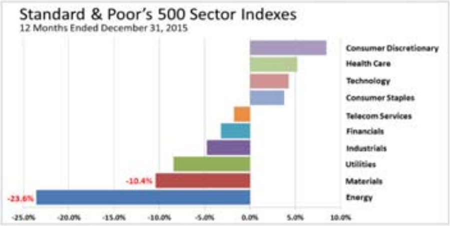
BULL MARKET RETURNS

Stocks made a comeback in 4Q2015, following a correction in August and September. Prices climbed steadily in October before levelling out in November and December. Good economic news kept coming, and the S&P 500 returned, including dividends, 7% — a very strong quarter.



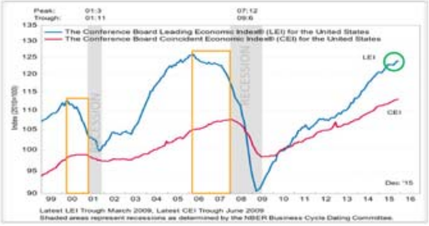
STOCKS TAKE A BREATHER IN 2015

When you look at the progression of stock prices over the five years that ended December 31, 2015, you can see a leveling-off in returns in 2015. Stocks took a breather. Still, the S&P 500 total return of 81% was breathtaking compared with most five-year periods in history.



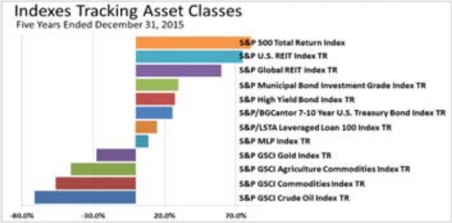
ENERGY STOCKS CRUSHED

U.S. consumers drove economic growth, powering discretionary consumer-goods companies to the top of Standard & Poor's 10 industry indexes. Health care issues sailed upward again, while low oil prices dealt energy shareowners a 23.6% loss of capital.



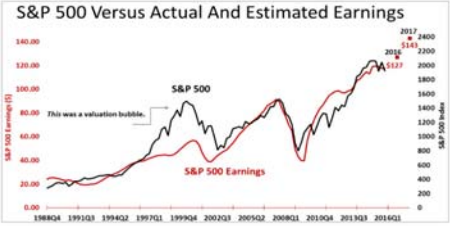
LEADING ECONOMIC INDICATORS

Months before recession (gray), U.S. LEIs turn down (orange). In 2015, the LEIs haltingly rose. Meanwhile, the Federal Reserve is years away from restrictive policy and the yield curve is nowhere near inversion. These positives support stock prices, but markets are emotional.



WHO COULD HAVE PREDICTED THIS?

In this five-year period, U.S. stocks were No. 1. Over the next five years, will the same thing happen? No one knows. Diversifying broadly means you won't ever perform as well as the No. 1 asset class. But it also means your portfolio won't ever perform as poorly as the worst asset class. Oil lost 45.3% in the five years.



S&P 500 INDEX VS. EARNINGS[¥]

Red squares show expected earnings on the S&P 500 index based on a January 4, 2016 forecast by Wall Street analysts for earnings of $117 per share in 2015, $127 in 2016, and $143 in 2017. Earnings growth is poised to propel stocks higher, unless a crisis or really bad unexpected news sets world progress back.

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 January 4, 2016 was $117.26 for 2015, $126.91 for 2016 and $142.80 for 2017. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through January 8, 2016; and actual earnings data through 2015.

New "Tax Extenders" Law

(Continued from page 1)

Qualified small business stock: Investors in qualified small business stock (QSBS) can continue to exclude 100% of the gain from the sale of such stock. This tax exclusion was supposed to be cut to 50% for QSBS acquired after 2014, but now the 100% exclusion is permanent.

Employee transportation benefits: The tax law provides tax-free benefits for workers' mass transit passes, van pooling, and parking fees. The maximum monthly benefit for mass transit passes and van pooling had been reduced to $130 after 2014, but the new law restores a monthly maximum of $250 for all three fringe benefits (indexed to $255 for 2016).

Teacher classroom expenses: Teachers and other educators can deduct up to $250 of their out-of-pocket classroom expenses. This deduction will be indexed for inflation in future years.

Extended Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now are extended retroactive to January 1, 2015, for a period of at least two years.

- Your business can claim a bonus depreciation deduction of 50% (on the purchase of new equipment) for 2015 through 2017. That drops to 40% in 2018 and 30% in 2019.
- Parents can elect to deduct college tuition and fees, subject to an income-based phaseout, instead of a higher education credit.
- Employers again may claim tax credits for hiring workers who are military veterans or from specified disadvantaged groups.
- Some homeowners will benefit from tax-free mortgage forgiveness on debts of up to $2 million and a deduction for mortgage insurance premiums.
- A residential energy credit of up to $500 is available for qualifying energy-saving expenses.

Among other changes, the new law also postpones a tax on high-priced health insurance plans—mandated by the Affordable Care Act (ACA)—from 2018 to 2020; codifies the Taxpayer Bill of Rights; and extends liberal rules for Section 529 college saving plans. Contact us for information about how these provisions may affect your situation. ●

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