Eddy Company, LLC
Brian Eddy, MBA, CFA, CFP (R)
Founder/Financial & Tax Planner
100 Cummings Center
Suite 207-P
Beverly, MA 01915
978-922-0435
617-816-5493
brian@eddycompany.com
www.eddycompany.com

2015 Federal Income Tax Planning

The Tax Planning Environment in 2015

While more than 15 major pieces of tax legislation have been enacted into law since 2000, the current tax planning environment has been heavily shaped by the American Taxpayer Relief Act of 2012, passed in January 2013, and to a lesser extent by the Tax Increase Prevention Act of 2014.

The American Taxpayer Relief Act of 2012 made permanent a number of significant tax provisions that had previously existed only in temporary form, and introduced some new provisions that targeted high-income individuals. The Tax Increase Prevention Act of 2014 retroactively extended a host of additional provisions that had expired at the end of 2013, but only through the 2014 tax year. As a result, 2015 tax planning takes place in an environment that includes a certain degree of uncertainty, as we must once again consider whether these expired provisions will be renewed.

Permanent provisions

These provisions are now part of the permanent tax landscape:

- The six individual federal income tax rates (10%, 15%, 25%, 28%, 33%, and 35%) that had existed in temporary status for the prior decade remain, and a top 39.6% tax rate applies to those with the highest incomes
- Special maximum tax rates generally apply to long-term capital gains and qualified dividends; the rate is 0%, 15%, or 20% depending on your federal income tax bracket
- Higher alternative minimum tax (AMT) exemption amounts are in effect and adjusted for inflation; the AMT is essentially a parallel federal income tax system with its own rates and rules, and the higher exemption amounts and other related provisions significantly limit the reach of this tax
- Personal and dependency exemptions are phased out at higher incomes, and itemized deductions may be limited
- "Marriage penalty" relief in the form of an increased standard deduction for married couples and an expanded 15% federal income tax bracket
- Expanded tax credit provisions relating to the dependent care tax credit, the adoption tax credit, and the child tax credit
- Increased limits and more generous rules of application relating to certain education provisions, including Coverdell education savings accounts, employer-provided education assistance, and the student loan interest deduction

Provisions that have expired

In one of its final acts, the 113th Congress passed the Tax Increase Prevention Act of 2014, which was signed into law in December 2014. This legislation retroactively extended a host of popular tax provisions (commonly referred to as "tax extenders") that had expired at the end of 2013. The following provisions were among those retroactively extended through 2014, but--absent additional legislation--are no longer available for the 2015 tax year.

- A deduction for amounts paid toward tuition and fees (for yourself, your spouse, or a dependent) for enrollment in a degree or certificate program at an accredited post-secondary educational institution
- A deduction of up to $250 for unreimbursed qualified classroom expenses paid by educators during the year
- The option to deduct state and local general sales taxes in lieu of the deduction for state and local income taxes on Form 1040, Schedule A
- Tax-free charitable donations from IRAs ("qualified charitable distributions")
- Deduction for qualifying mortgage insurance premiums
- First-year 50% bonus depreciation deduction
- Expansion of IRC Section 179 expensing limits
- Exclusion of gain on the sale or exchange of qualified small-business stock

"Tax Extenders"

These popular tax provisions expired at the end of 2014. Absent additional legislation, these provisions will not apply for the 2015 tax year.

Provision	Treatment in 2014	Treatment in 2015 (absent new legislation)
Deduction for qualified higher-education expenses	You may have been entitled to a deduction if you paid qualified higher-education expenses during the year--this includes tuition and fees (for yourself, your spouse, or a dependent) for enrollment in a degree or certificate program at an accredited post-secondary educational institution. The deduction doesn't include payments for meals, lodging, insurance, transportation, or other living expenses. The maximum deduction is generally $4,000. Limitations based on adjusted gross income (AGI) applied.	No deduction is allowed.
Deduction for classroom expenses paid by educators	If you're an educator, you could claim up to $250 of unreimbursed qualified classroom expenses you paid during the year as an "above-the line" deduction. Qualifying expenses include the cost of books, most supplies, computer equipment, and supplementary materials used in the classroom. Teachers, instructors, counselors, principals, and aides for kindergarten through grade 12 were eligible, provided a minimum number of hours were worked during the school year.	No deduction is allowed.
Deduction for state and local general sales taxes	If you itemized deductions on Schedule A of IRS Form 1040, you could elect to deduct state and local general sales taxes in lieu of the deduction for state and local income taxes. You could calculate the total amount of state and local sales taxes paid by accumulating receipts showing general sales taxes paid, or you could use IRS tables. If you used IRS tables to determine your deduction, in addition to the table amounts you could deduct eligible general sales taxes paid on cars, boats, and other specified items.	No option to claim sales tax in lieu of state and local income taxes on Form 1040, Schedule A.
Tax-free charitable donations from IRAs	Individuals age 70½ or older could make a qualified charitable distribution (QCD) of up to $100,000 from an IRA and exclude the distribution from gross income. The distribution must have been made directly to a qualified charity and must have been a distribution that would otherwise have been taxable. QCDs count toward satisfying any required minimum distributions (RMDs) that would otherwise have had to be made from your IRA, just as if you had received an actual distribution from the plan.	Qualified charitable distributions (QCDs) cannot be made from IRAs.

Deduction for mortgage insurance premiums	Premiums paid or accrued for qualified mortgage insurance associated with the acquisition of your main or second home could be treated as deductible qualified residence interest on Schedule A of IRS Form 1040, subject to AGI limitations.	Mortgage insurance premiums are generally not deductible.
Bonus depreciation	You could claim an additional first-year "bonus" depreciation deduction, equal to 50% of the adjusted basis of qualified property placed in service during the year. The additional first-year depreciation deduction was allowed for both regular tax and the alternative minimum tax.	No "bonus" depreciation available.
Expanded IRC Section 179 expensing limits	Under IRC Section 179, if you're a small-business owner you can generally elect to expense the cost of qualifying property, rather than to recover such costs through depreciation deductions. The maximum amount that could be expensed for 2014 was $500,000. The $500,000 limit was reduced by the amount by which the cost of qualifying property placed in service during the taxable year exceeded $2,000,000.	Maximum amount that can be expensed under IRC Section 179 is $25,000. The $25,000 limit is reduced by the amount by which qualifying property placed in service during the year exceeds $200,000.
Exclusion of gain--qualified small-business stock	Generally, you're able to exclude 50% of any capital gain from the sale or exchange of qualified small-business stock provided that certain requirements, including a five-year holding period, are met. However, the exclusion percentage was increased to 100% for qualified small-business stock issued and acquired in 2014.	The general 50% exclusion amount applies to qualified small-business stock issued and acquired in 2015.

More than 147 million individual federal income tax returns were filed for the 2013 tax year.

Source: Table 1, Individual Income Tax Returns: Selected Income and Tax Items (based on tax year 2013 preliminary data), www.irs.gov, 4/6/15

Income Tax Fundamentals

What is "gross income"?

Your gross income is the total income reported on your tax return, and includes items such as wages, taxable interest, dividends, and capital gains. Basically, unless a type of income is specifically excluded by the Internal Revenue Code, it is included in determining gross income.

Internal Revenue Code (IRC) Section 61(a) defines gross income as: *[...] all income from whatever source derived, including (but not limited to) the following items:*

1. *Compensation for services, including fees, commissions, fringe benefits, and similar items*
2. *Gross income derived from business*
3. *Gains derived from dealings in property*
4. *Interest*
5. *Rents*
6. *Royalties*
7. *Dividends*
8. *Alimony and separate maintenance payments*
9. *Annuities*
10. *Income from life insurance endowment contracts*
11. *Pensions*
12. *Income from discharge of indebtedness*
13. *Distributive share of partnership gross income*
14. *Income in respect of a decedent*
15. *Income from an interest in an estate or trust*

What's not included in gross income? Items that are specifically excluded from gross income include gifts and inheritances, life insurance death benefits, scholarships, payments for injury or sickness, certain employment fringe benefits, certain military pay and benefits, interest on some state and local bonds, and limited gain on the sale of a principal residence. In some cases, income is specifically excluded if certain conditions are met. For example, Social Security benefits may be excluded from income, but a portion of

The federal income tax system is progressive, with higher tax rates applying as the level of taxable income increases. There are seven tax rate brackets ranging from 10% to 39.6%.

benefits is included once your income reaches a certain level. Earnings within certain tax-advantaged savings vehicles like IRAs, 401(k) plans, and 529 plans are excluded from current income, provided certain criteria are met.

What is "taxable income"?

You start with your gross income, then subtract your adjustments to income--sometimes called "above-the-line" deductions--to determine your adjusted gross income (AGI). Adjustments to income may include deductions for student loan interest, moving expenses, and contributions to health savings accounts and traditional IRAs.

You're generally also able to take a standard deduction amount that's based on your filing status. If you choose, you can itemize deductions on IRS Form 1040, Schedule A, rather than claiming the standard deduction. Itemized deductions include deductions for medical expenses, mortgage interest, state and local taxes, and charitable contributions.

You're also able to claim specific dollar exemptions for yourself, your spouse (if you are married and file a joint return), and your dependents. Subtracting adjustments to income, deductions, and exemptions from your gross income results in your taxable income, which is used to calculate your federal income tax.

Basic Standard Deduction Amounts

Filing status	2014	2015
Married filing jointly or qualifying widow(er)	$12,400	$12,600
Head of household	$9,100	$9,250
Single	$6,200	$6,300
Married filing separately	$6,200	$6,300

Personal Exemption Amounts

2014	2015
$3,950	$4,000

Note: *Itemized deductions are limited, and personal exemptions are phased out, for high-income individuals (for 2015, individuals filing single with AGI exceeding $258,250; married individuals filing jointly with AGI exceeding $309,900; head of household filers with AGI exceeding $284,050; and married individuals filing separately with AGI exceeding $154,950). Additional standard deduction amounts are available for those 65 and older or blind. Special rules apply if you can be claimed as a dependent by someone else.*

Choosing an income tax filing status

Your filing status is especially important because it determines, in part, the tax rate applied to your taxable income, the amount of your standard deduction, and the types of deductions and credits available. Because you may have more than one option, make sure you understand the qualifications. Your filing status is determined as of the last day of the tax year (December 31). There are five possible filing statuses:

Single

To use the single status, you must be unmarried or separated from your spouse by either divorce or a written separate maintenance decree on the last day of the year.

Married filing jointly

Generally, you must be married and living with your spouse; you can be married and living apart provided that you are not legally separated under a divorce decree or separate maintenance agreement. When filing jointly, you and your spouse combine your income, exemptions, deductions, and credits.

Married filing separately

You must be married on the last day of the year. Here, you'd report only your own income and claim only your own deductions and credits.

Head of household

You must be a U.S. citizen or resident alien for the entire year and: (1) be unmarried at the end of the year (an exception applies if you live apart from a spouse and meet certain criteria); (2) maintain a household for your child, dependent parent, or other qualifying dependent relative (the household must be your home and generally the main home of the qualifying individual for more than half of the year); and (3) provide more than half the cost of maintaining the household.

Qualifying widow(er) with dependent child

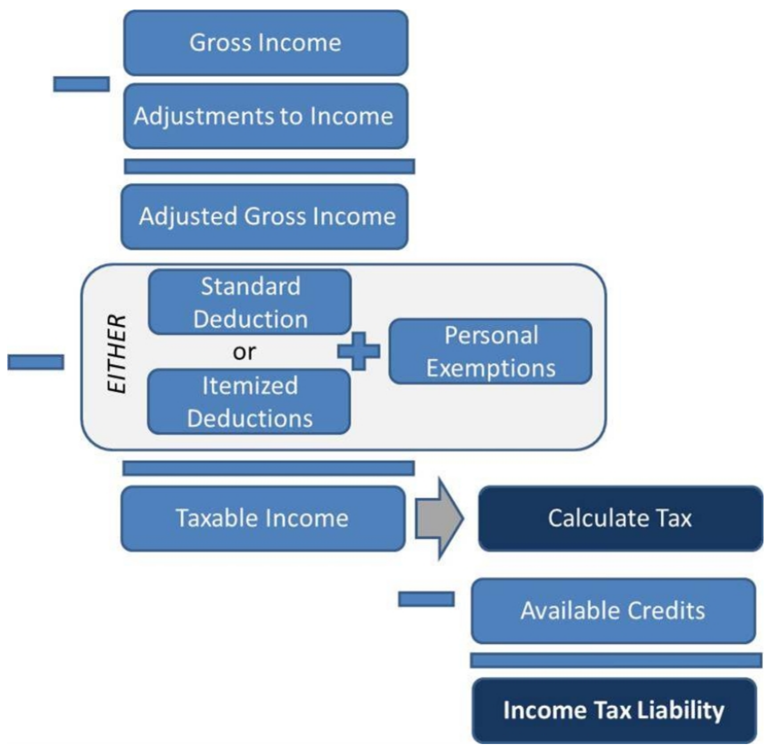
To claim this filing status, all of the following must be true: (1) your spouse died in either the last tax year or the tax year before that; (2) you qualified to file a joint return with your spouse for the year he or she died; (3) you have not remarried before the end of the tax year; (4) you have a qualifying dependent child; and (5) you provide over half the cost of keeping up a home for yourself and your qualifying child.

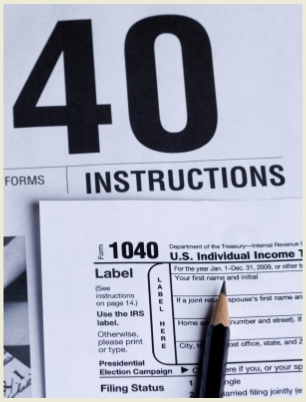
Determining your tax

The federal income tax system is progressive, with higher tax rates applying as the level of taxable income increases. There are seven tax rate brackets ranging from 10% to 39.6%. A tax rate bracket is the tax rate that applies to a specified range of taxable income. For example, if you file as single for 2015, the first $9,225 of your taxable income is taxed at a rate of 10%, but the next dollar in taxable income is taxed at a rate of 15%. You'll generally calculate your tax by looking up your taxable income in a tax table, or by using a tax rate schedule specific to your filing status.

There are, however, a number of complicating factors in determining the correct amount of tax. For example, special rules and rates apply to long-term capital gains and qualified dividends. You might also be affected by the alternative minimum tax (AMT), rules that apply to a child's unearned income (i.e., the "kiddie tax" rules), or the 3.8% net investment income tax that applies on the unearned investment income of some high-income individuals.

Fundamentals at a glance





2015 Federal Income Tax Rates for Individuals

Single taxpayers

If taxable income is:	Your tax is:
Not over $9,225	10% of taxable income
Over $9,225 to $37,450	$922.50 + 15% of the excess over $9,225
Over $37,450 to $90,750	$5,156.25 + 25% of the excess over $37,450
Over $90,750 to $189,300	$18,481.25 + 28% of the excess over $90,750
Over $189,300 to $411,500	$46,075.25 + 33% of the excess over $189,300
Over $411,500 to $413,200	$119,401.25 + 35% of the excess over $411,500
Over $413,200	$119,996.25 + 39.6% of the excess over $413,200

Married filing jointly and qualifying widow(er)

If taxable income is:	Your tax is:
Not over $18,450	10% of taxable income
Over $18,450 to $74,900	$1,845 + 15% of the excess over $18,450
Over $74,900 to $151,200	$10,312.50 + 25% of the excess over $74,900
Over $151,200 to $230,450	$29,387.50 + 28% of the excess over $151,200
Over $230,450 to $411,500	$51,577.50 + 33% of the excess over $230,450
Over $411,500 to $464,850	$111,324 + 35% of the excess over $411,500
Over $464,850	$129,996.50 + 39.6% of the excess over $464,850

Married individuals filing separately

If taxable income is:	Your tax is:
Not over $9,225	10% of taxable income
Over $9,225 to $37,450	$922.50 + 15% of the excess over $9,225
Over $37,450 to $75,600	$5,156.25 + 25% of the excess over $37,450
Over $75,600 to $115,225	$14,693.75 + 28% of the excess over $75,600
Over $115,225 to $205,750	$25,788.75 + 33% of the excess over $115,225
Over $205,750 to $232,425	$55,662 + 35% of the excess over $205,750
Over $232,425	$64,998.25 + 39.6% of the excess over $232,425

Heads of household

If taxable income is:	Your tax is:
Not over $13,150	10% of taxable income
Over $13,150 to $50,200	$1,315 + 15% of the excess over $13,150
Over $50,200 to $129,600	$6,872.50 + 25% of the excess over $50,200
Over $129,600 to $209,850	$26,722.50 + 28% of the excess over $129,600
Over $209,850 to $411,500	$49,192.50 + 33% of the excess over $209,850
Over $411,500 to $439,000	$115,737 + 35% of the excess over $411,500
Over $439,000	$125,362 + 39.6% of the excess over $439,000

Deductions

"Above" vs. "below" the line

Adjustments to income are deductions that are subtracted from your total, or gross, income to arrive at your adjusted gross income (AGI). These deductions are often described as "above-the-line" deductions because they are factored in above the line on which AGI is calculated. Note that you can claim any above-the-line deductions to which you are entitled regardless of whether you itemize deductions on IRS Form 1040, Schedule A.

> ***Common "above-the-line" deductions***
>
> - *Educator expenses**
> - *Health savings account deduction*
> - *Moving expenses*
> - *Deductible part of self-employment tax*
> - *Contributions by self-employed individuals to SEP, SIMPLE, and qualified plans*
> - *Health insurance deduction (self-employed individuals)*
> - *Alimony paid*
> - *Deductible contributions to a traditional IRA*
> - *Student loan interest deduction*
> - *Deduction for qualified higher-education expenses (tuition and fees)**
>
> **Available for 2014, but not for 2015 (absent new legislation)*

Other deductions are factored in *after* AGI is calculated. It's important to note that these "below-the-line" deductions provide a tax benefit only if you itemize deductions on Schedule A, and generally only if your Schedule A itemized deductions are greater than your standard deduction amount. Note as well that the allowable amount of some of these deductions depends in part on the amount of your AGI. For example, medical deductions are allowed only to the extent that they exceed 10% of AGI (7.5% for those 65 and older).

Standard deduction

The standard deduction is a fixed dollar amount, indexed annually for inflation, that is determined according to your filing status (e.g., married filing jointly, single). An additional standard deduction amount applies if you (or your spouse, if you're married and file a joint return) are age 65 or older. An additional standard deduction amount also applies for individuals who are blind.

2015 Standard Deduction Amounts

Filing Status / Factors	2015
Married filing jointly or qualifying widow(er)	$12,600
Head of household	$9,250
Single	$6,300
Married filing separately	$6,300
Additional deduction for age 65+ or blind (single or head of household)	$1,550
Additional deduction for age 65+ or blind (all other filing statuses)	$1,250

Example: *For tax year 2015, Jack, 62, and Jill, 47, are married filing jointly. Neither is blind. They decide not to itemize their deductions. Their standard deduction is $12,600. If Jack was blind, their standard deduction would be $12,600 plus $1,250, or $13,850. If both were blind, their standard deduction would be $12,600 plus $2,500, or $15,100. If both were blind and Jack was also 65, their standard deduction would be $12,600 plus $3,750, or $16,350. If both were over 65 and blind, their standard deduction would be $12,600 plus $5,000, or $17,600.*

Note: *If you can be claimed as a dependent on another taxpayer's tax return, your standard deduction in 2015 is generally limited to the greater of (a) $1,050 or (b) the sum of $350 and your earned income for the year but not more than the standard deduction you could otherwise have claimed (if you could not be claimed as an exemption by someone else).*

Itemized deductions

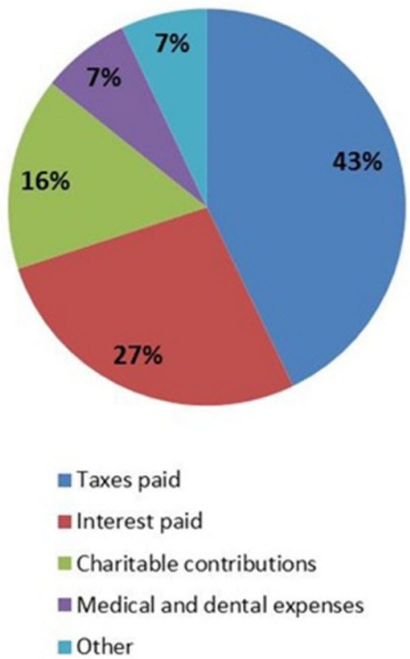
Itemized deductions are various deductions reported and claimed on Schedule A of your federal income tax return (Form 1040). They include certain personal expenses, such as medical expenses, mortgage interest, state taxes, charitable contributions, theft losses, and miscellaneous itemized deductions. If you have enough of these types of expenses, your itemized deductions may exceed the standard deduction to which you're entitled. In that case, itemizing deductions may be advantageous. If your itemized deductions are less than your standard deduction, you'll generally want to use the standard deduction.

Of an estimated 147.7 million federal income tax returns filed for the 2013 tax year, just over 44 million claimed itemized deductions.

Source: Table 1, Individual Income Tax Returns: Selected Income and Tax Items (based on tax year 2013 preliminary data), www.irs.gov , 4/6/15

There are a few things worth noting, however. First, if you file your tax return using the married filing separately status and your spouse itemizes deductions, you cannot take a standard deduction. Any deductions you take must be itemized. Second, if you are subject to the alternative minimum tax (AMT) (discussed later), you might be better off itemizing your deductions even though your total itemized deductions do not exceed your standard deduction--that's because the standard deduction is reduced to zero for AMT purposes. Finally, itemized deductions are limited once your AGI reaches a certain level.

Itemized Deduction Breakdown for 2013 Tax Year



Based on percentage of total itemized deduction dollars for 2013 tax year.

Source: Table 1, Individual Income Tax Returns: Selected Income and Tax Items (based on tax year 2013 preliminary data), www.irs.gov, *4/6/15*

2015 AGI Thresholds for Itemized Deduction Limitation

Filing Status	**AGI Threshold**
Married filing jointly or qualified widow(er)	$309,900
Head of household	$284,050
Single	$258,250
Married filing separately	$154,950

Note: *Total itemized deductions must be reduced by the smaller of (a) 3% of the amount by which your AGI exceeds the AGI threshold for your filing status or (b) 80% of your itemized deductions that are affected by the limitation. Deduction amounts relating to medical and dental expenses, investment interest expenses, nonbusiness casualty and theft losses, and gambling losses are not subject to this limitation.*

Timing or "bunching" deductions

For most people, income is reported in the year that it's received, while deductions are generally taken for the year in which the expenses are paid. In many cases, you can control whether you incur an expense this year or next. That means you can control the timing of your itemized deductions to some extent. For example, paying medical expenses in December rather than in January potentially accelerates the deduction for those expenses into the earlier year. Postponing major dental work--scheduled for December--to January would delay the expense, and the resulting deduction, until the following year.

Why would you want to do that? One reason might be if those deductions are worth more to you in one year than in the other. For example, if you're in a higher income tax bracket this year than you expect to be in next year, you may want to accelerate your deductions into the current year to help minimize your tax liability. Or, if you find that your itemized deductions typically fall just short of the standard deduction amount that applies to you, you might try "bunching" deductions in alternate years to exceed the standard deduction amount in those years.

For example, let's say that you file as single and have total itemized deductions of $6,250 for 2015--less than the $6,300 standard deduction amount for 2015. Let's assume as well that you will be in a similar situation next year, with itemized deductions that equal your standard deduction amount. In this situation, your itemized deductions provide no tax benefit. Consider what would happen, however, if you were able to defer $1,000 in allowable deductions to next year. There would be no effect on your 2015 taxes, since you were already claiming the standard deduction amount. But next year, your itemized deductions would exceed your standard deduction amount by $1,000, giving you an additional $1,000 in deductions that would otherwise have been lost.

Bunching deductions can also help at a more granular level. Some deductions are subject to an AGI threshold. For example, medical and dental expenses are generally deductible only to the extent that unreimbursed expenses exceed 10% of your AGI (7.5% of AGI through 2016 if you or your spouse are age 65 or older). If you're close but under the AGI threshold, consider whether taking steps to "bunch" medical expenses into a single year might allow you to exceed the threshold in a given year, resulting in additional deductions that would otherwise have been lost.

Tax Credits

What is a tax credit?

A tax credit results in a dollar-for-dollar reduction of your tax liability. After you calculate the amount of tax for which you are liable, based on your taxable income, you subtract the total amount of any tax credits for which you are eligible. In some cases, if your tax credits exceed your tax liability, you will be able to claim the difference as a refund.

What's the difference between a tax deduction and a tax credit?

A tax deduction reduces your taxable income. Because your federal income tax is based on your taxable income, a tax deduction will decrease the amount of tax owed. The extent to which a deduction reduces tax, though, depends on your marginal federal income tax bracket. The higher the rate at which you're paying tax, the more a tax deduction reduces your tax liability. Here's an example: If you're in the 28% marginal tax bracket and have $1,000 in tax deductions, your tax liability will be reduced by $280. That same $1,000 tax deduction would result in a $350 reduction in tax liability if you are in the 35% marginal tax bracket.

A tax credit, on the other hand, is a dollar-for-dollar reduction. A tax credit of $1,000 will reduce your tax liability by $1,000, regardless of your tax bracket.

Refundable vs. nonrefundable tax credits

Most tax credits are *nonrefundable.* That means a tax credit can reduce your tax liability to zero. If there's any credit remaining after offsetting all tax liability, it is generally lost, or in some cases carried over to other years.

Credits that are *refundable* are paid to you even if there is credit left over after reducing your tax liability to zero.

Common tax credits for individuals

Tax Credits That Are Refundable or Partially Refundable

Earned income tax credit	This is a credit for certain lower- and moderate-income people who work. The amount of the credit is based on your adjusted gross income (AGI), your filing status, and the number of qualifying children you have (if any). The maximum earned income tax credit for 2015 is $6,242, which applies to taxpayers with 3 or more qualifying children, and AGI below $23,630 (married filing jointly) or $18,110 (other qualifying filing statuses).
Child tax credit	A credit of $1,000 for each qualifying child you claim on your return. The credit is limited if your modified AGI is above a certain amount ($75,000 if filing status single, $110,000 if married filing jointly, $55,000 if married filing separately). Up to 15% of earned income in excess of $3,000 is refundable.

American Opportunity tax credit*	A credit of up to $2,500 for qualified tuition and related expenses paid for each eligible student. This credit is available for the first four years of post-secondary education. An eligible student must be enrolled at least half-time for at least one academic period during the year, and can have no felony drug conviction on his or her record. The credit phases out at higher incomes (modified AGI between $80,000 and $90,000 for single filers, $160,000 and $180,000 for married filing jointly). Up to 40% of the credit is refundable.

Nonrefundable Tax Credits

Adoption tax credit	A tax credit of up to $13,400 in 2015 for qualifying expenses paid to adopt an eligible child. The credit is not available for any reimbursed expense. The credit is phased out for those with modified AGI between $201,010 and $241,010.
Child and dependent care credit	This credit is available if you paid someone to care for a qualifying individual so you (and your spouse if you are married) could work or look for work. The credit amount is a percentage (maximum 35%) of the work-related child and dependent care expenses you paid to a care provider, and it is based on your AGI. You may use up to $3,000 of the expenses paid in a year for one qualifying individual, or $6,000 for two or more qualifying individuals. These dollar limits must be reduced by the amount of any dependent care benefits provided by your employer that you exclude from your income.
Credit for the elderly or the disabled	You may be able to take the credit for the elderly or the disabled if: (1) you're age 65 or older and meet certain income requirements, or (2) you're under age 65, retired on permanent total disability, and received taxable disability income during the year.
Foreign tax credit	This credit is intended to reduce the double tax burden that would otherwise arise when foreign-source income is taxed by both the United States and the foreign country from which the income is derived. Qualified foreign taxes do not include taxes that are refundable to you or taxes paid to countries whose government is not recognized by the United States. You can choose to take the amount of any qualified foreign taxes paid or accrued during the year as a foreign tax credit or as an itemized deduction on Schedule A of Form 1040.
Credit for contributions to retirement plans and IRAs ("saver's" credit)	If you make eligible contributions to an employer-sponsored retirement plan or to an IRA, you may be able to take a tax credit. The amount of the available saver's credit is based on the contributions you make (up to $2,000), your credit rate, and your AGI. If you qualify for the credit, your credit rate can be as low as 10% or as high as 50%, depending on your AGI and filing status. The maximum credit is $1,000 per individual.
Lifetime Learning credit*	A credit of up to $2,000--20% of up to $10,000 in tuition paid for all students enrolled in eligible educational institutions. There is no limit on the number of years for which this credit can be claimed. The student does not need to be pursuing a degree or other recognized educational credentials. The credit is available for one or more courses. The credit phases out at higher incomes (modified AGI between $55,000 and $65,000 for single filers, $110,000 and $130,000 for married filing jointly).

*You can't take both the American Opportunity credit and the Lifetime Learning credit in the same year for the same student.

What is a "wash sale"?

A wash sale occurs when you sell a security at a loss and acquire the same or a substantially identical security (or an option on such a security) within 30 days of the sale (before or after). Any losses that result from a wash sale are disallowed and added to the cost basis of the stock or securities.

Investment Tax Basics

Ordinary income

Examples of ordinary income include wages, tips, commissions, alimony, and rental income. Investments often produce ordinary income in the form of interest. Many investments--including savings accounts, certificates of deposit, money market accounts, annuities, bonds, and some preferred stock--can generate ordinary income. Ordinary income is taxed at ordinary, or regular, income tax rates.

Note: *It's possible for an investment to generate an ordinary loss, rather than ordinary income. In general, ordinary losses reduce ordinary income.*

Capital gain and loss

If you sell stocks, bonds, or other capital assets for more or less than you paid for them, you'll end up with a capital gain or loss. Special capital gain tax rates may apply. These rates may be lower than ordinary income tax rates.

Understanding basis

Generally speaking, basis refers to the amount of your investment in an asset. Your initial basis usually equals your cost--what you paid for the asset. For example, if you purchased one share of stock for $100, your initial basis in the stock is $100. However, your initial basis can differ from the cost if you did not purchase an asset but rather received it as a gift or inheritance, or in a tax-free exchange.

Your initial basis in an asset can increase or decrease over time. For example, if you buy a house for $100,000, your initial basis in the house will be $100,000. If you later improve your home by installing a $5,000 deck, your adjusted basis in the house may be $105,000. You should be aware of items that increase or decrease the basis of your asset. For a detailed discussion of basis and adjustments to basis, see IRS Publication 551, Basis of Assets.

Calculating gain or loss

Capital gain (or loss) equals the amount that you realize on the sale of your asset (i.e., the amount of cash and/or the value of any property you receive) less your adjusted basis in the asset. If you sell an asset for more than your adjusted basis, you'll have a capital gain. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $15,000, your capital gain will be $5,000. If you sell an asset for less than your adjusted basis in the asset, you'll have a capital loss.

Short term vs. long term

Generally, the amount of time that you've owned an asset is referred to as your holding period. A capital gain is classified as short term if the asset was held for one year or less, and long term if the asset was held for more than one year.

Whether your capital gain is classified as short term or long term can make a difference in how you calculate tax. Short-term capital gains are taxed at the same rate as your ordinary income. The tax rates that apply to long-term capital gains, however, are generally lower than ordinary income tax rates.

> ***You can use capital losses from one investment to offset the capital gains from other investments (special ordering rules apply in netting gains and losses). If your total capital losses exceed your total capital gains, you can generally use your excess capital loss to offset up to $3,000 of ordinary income in a tax year ($1,500 for married persons filing separately). Losses not used in one year can be carried forward to future years.***

Long-term capital gain

For long-term capital gains, special tax rates apply. The maximum tax rate at which your long-term capital gains are taxed depends on which ordinary federal income tax rate bracket you fall into.

If your taxable income places you in the lowest two tax brackets for ordinary income tax purposes, a 0% tax rate generally applies to long-term capital gains. So, for 2015, if your filing status is single and your taxable income is less than $37,450, you'll generally pay no tax on long-term capital gains.

If you're in the 25%, 28%, 33%, or 35% tax brackets, the maximum rate that applies to long-term capital gains is generally 15%. If you're in the top federal tax bracket (39.6%), the maximum tax rate that applies is generally 20%.

What is the "kiddie tax"?

Special rules commonly referred to as the "kiddie tax" rules apply when a child has unearned income (for example, investment income). Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount. For 2015, this amount is $2,100 (the first $1,050 is generally tax free and the next $1,050 is taxed at the child's rate). The kiddie tax rules apply to (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

Maximum Long-Term Capital Gain Tax Rate Based on 2015 Taxable Income

Single	Married filing jointly	Married filing separately	Head of household	Tax rate
Up to $37,450	Up to $74,900	Up to $37,450	Up to $50,200	0%
$37,451 up to $413,200	$74,901 up to $464,850	$37,451 up to $232,425	$50,201 up to $439,000	15%
More than $413,200	More than $464,850	More than $232,425	More than $439,000	20%

Note: *Special rates and rules apply to certain types of assets. For example, long-term capital gain from the sale of collectibles is subject to a 28% tax rate.*

Qualified dividends

If you receive dividend income, it may be taxed either at ordinary income tax rates or at the rates that apply to long-term capital gain income. If the dividends are qualified dividends, they're taxed at the same tax rates that apply to long-term capital gains. Qualified dividends are dividends paid to an individual shareholder from a domestic corporation or a qualified foreign corporation, provided that you hold the shares for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (a longer holding period requirement applies to dividends paid by certain preferred stock).

Some dividends (such as those from money market funds) continue to be treated as ordinary income. Generally, ordinary dividends are shown in box 1a of Form 1099-DIV, while qualified dividends are shown in box 1b.

Tax-exempt income

Some income is specifically exempted from federal income tax. For example, while the interest on corporate bonds is subject to tax at the local, state, and federal level, interest on bonds issued by state and local governments (generically called municipal bonds, or munis) is generally exempt from federal income tax. If you live in the state in which a specific municipal bond is issued, it may be tax free at the state or local level as well. Note that the income from Treasury securities, which are issued by the U.S. government, is exempt from state and local taxes but not from federal taxes.

Caution: *Interest earned on tax-free municipal bonds is generally exempt from state tax if the bond was issued in the state in which you reside, as well as from federal income tax (though earnings on certain private activity bonds may be subject to regular federal income tax or to the alternative minimum tax). But if purchased as part of a tax-exempt municipal money market or bond mutual fund, any capital gains earned by the fund are subject to tax, just as any capital gains from selling an individual bond are. Note also that tax-exempt interest is included in determining if a portion of any Social Security benefit you receive is taxable.*

> ***The interest received on Series EE savings bonds is exempt from state and local income taxes. In addition, the interest on Series EE bonds purchased on or after January 1, 1990, may be exempt from federal income taxation if the bonds are used for certain educational purposes and if certain requirements (including AGI limitations) are met.***

Net investment income tax

High-income individuals generally face an additional 3.8% net investment income tax (also referred to as the unearned income Medicare contribution tax) on unearned income. This surtax is equal to 3.8% of the lesser of:

- Your net investment income
- The amount of your modified AGI (basically, your AGI increased by an amount associated with any foreign earned income exclusion) that exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately)

So if you're single and have modified AGI of $250,000, consisting of $150,000 in earned income and $100,000 in net investment income, the 3.8% net investment income tax will apply only to $50,000 of your investment income.

Net investment income generally includes all net income (income less any allowable associated deductions) from interest,

dividends, capital gains, annuities, royalties, and rents. It also includes income from any business that's considered a passive activity, or any business that trades financial instruments or commodities.

Note: *Net investment income does not include interest on tax-exempt bonds, or any gain from the sale of a principal residence that is excluded from income. Distributions you take from a qualified retirement plan, IRA, IRC Section 457(b) deferred compensation plan, or IRC Section 403(b) retirement plan are also not included in the definition of net investment income.*

Tax-advantaged savings vehicles

Taxes can take a bite out of your total investment returns, so it's helpful to consider tax-advantaged savings vehicles when building a portfolio. Some tax-advantaged savings vehicles allow you to defer paying taxes on earnings until some point in the future, while other tax-advantaged savings vehicles allow earnings to escape taxation altogether under certain circumstances.

Tax-advantaged savings vehicles for retirement

Traditional IRAs: Anyone under age 70½ who earns income or is married to someone with earned income can contribute to a traditional IRA. Depending upon your income level and whether you're covered by an employer-sponsored retirement plan, you may or may not be able to deduct your contributions to a traditional IRA. Your contributions always grow tax deferred, but you'll owe income taxes when you make a withdrawal.* For 2015, you can contribute up to $5,500 to an IRA, and individuals age 50 and older can contribute an additional $1,000.

Roth IRAs: Roth IRA contributions can be made only by individuals with incomes below certain limits. Your contributions are made with after-tax dollars but will grow tax deferred, and qualified distributions (those satisfying a five-year holding period and made after age 59½ or after becoming disabled) will be tax free when you withdraw them. The amount you can contribute is the same as for traditional IRAs. Total combined contributions to Roth and traditional IRAs cannot exceed $5,500 for 2015 for individuals under age 50.

SIMPLE IRAs and SIMPLE 401(k)s: These plans are generally associated with small businesses. As with traditional IRAs, your contributions grow tax deferred, and you'll owe income taxes when you make a withdrawal.* For 2015, you can contribute up to $12,500 to one of these plans; individuals age 50 and older can contribute an additional $3,000. (SIMPLE 401(k) plans may also allow Roth contributions.)

Employer-sponsored plans (401(k)s, 403(b)s, 457 plans): Contributions (typically made on a pre-tax basis) to these plans grow tax deferred, but you'll owe income taxes when you make a withdrawal.* For 2015, you can contribute up to $18,000 to one of these plans; individuals age 50 and older can contribute an additional $6,000. Employers generally allow employees to make after-tax Roth contributions in lieu of pre-tax contributions, in which case qualifying distributions will be tax free.

Annuities: You pay money to an annuity issuer (an insurance company), and the issuer promises to pay principal and earnings back to you or your named beneficiary in the future (you'll be subject to fees and expenses that you'll need to understand and consider). Annuities generally allow you to elect an income stream for life (subject to the financial strength and claims-paying ability of the issuer). There's no limit to how much you can invest, and your contributions grow tax deferred. However, you'll owe income taxes on the earnings when you start receiving distributions.*

*Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty unless an exception applies (the penalty may be 25% in the case of a SIMPLE IRA if withdrawals are taken within two years of beginning participation in the plan).

Tax-advantaged savings vehicles for college

529 plans: College savings plans and prepaid tuition plans let you set aside money for college. Your contributions grow tax deferred and can be withdrawn tax free at the federal level if the funds are used for qualified education expenses.** These plans are open to anyone regardless of income level. Contribution limits are high--typically over $300,000--but vary by plan.

Coverdell ESA: Coverdell education savings accounts are open only to individuals with incomes below certain limits. But if you qualify, you can contribute up to $2,000 per year, per beneficiary. Your contributions grow tax deferred and can be withdrawn tax free at the federal level if the funds are used for qualified education expenses.**

***Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. The availability of tax and other benefits may be conditioned on meeting certain requirements. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

**Earnings are subject to federal income tax and potentially a 10% penalty tax if the funds are not used for qualified education expenses.

Key AMT "triggers" include the number of personal exemptions you claim, your miscellaneous itemized deductions, and your state and local tax deductions.

Understanding the Alternative Minimum Tax (AMT)

What is the AMT?

The AMT is essentially a separate federal income tax system with its own tax rates and its own set of rules governing the recognition and timing of income and expenses. If you're subject to the AMT, you have to calculate your taxes twice--once under the regular tax system and again under the AMT system. If your income tax liability under the AMT is greater than your liability under the regular tax system, the difference is reported as an additional tax on your federal income tax return. If you're subject to the AMT in one year, you may be entitled to a credit that can be applied against regular tax liability in future years.

Who is liable for the AMT?

Key AMT "triggers" include the number of personal exemptions you claim, your miscellaneous itemized deductions, and your state and local tax deductions. So, for example, if you have a large family and live in a high-tax state, there's a good possibility that you might have to contend with the AMT. IRS Form 1040 instructions include a worksheet that may help you determine whether you're subject to the AMT (an electronic version of this worksheet is also available on the IRS website), but you might need to complete IRS Form 6251 to know for sure.

Common AMT adjustments

Here are some of the more common AMT adjustments.

Standard deduction and personal exemptions

The federal standard deduction, generally available under the regular tax system if you don't itemize deductions, is not allowed for purposes of calculating the AMT. Nor can you take a deduction for personal exemptions.

Itemized deductions

Under the AMT calculation, no deduction is allowed for state and local taxes paid, or for certain miscellaneous itemized deductions. Your deduction for medical expenses may also be reduced if you or your spouse are age 65 or older (the AMT adjustment for medical expenses effectively applies only to those who have reached age 65 and therefore have a lower AGI threshold for deducting medical expenses on Schedule A), and you can only deduct qualifying residence interest (e.g., mortgage or home equity loan interest) to the extent the loan proceeds are used to purchase, construct, or improve a principal residence.

Exercise of incentive stock options (ISOs)

Under the regular tax system, tax is generally deferred until you sell the acquired stock. But for AMT purposes, when you exercise an ISO, income is generally recognized to the extent that the fair market value of the acquired shares exceeds the option price. This means that a significant ISO exercise in a year can trigger AMT liability. If ISOs are exercised and sold in the same year, however, no AMT adjustment is needed, since any income would be recognized for regular tax purposes as well.

Depreciation

If you're depreciating assets (for example, if you're a sole proprietor and own an asset for business use), you'll have to calculate depreciation twice--once under regular income tax rules and once under AMT rules.

TIP: If you owe AMT, you may be able to lower your total tax (regular tax plus AMT) by claiming itemized deductions on Form 1040, even if your total itemized deductions are less than the standard deduction. This is because the standard deduction is not allowed for the AMT and, if you claim the standard deduction on Form 1040, you cannot claim itemized deductions for the AMT.

Source: 2014 Instructions for Form 6251, Alternative Minimum Tax, Individuals

AMT exemption amounts

While the AMT takes away personal exemptions and a number of deductions, it provides specific AMT exemptions. The amount of AMT exemption to which you're entitled depends on your filing status.

Your exemption amount, however, begins to phase out once your taxable income exceeds a certain threshold. (Specifically, your exemption amount is reduced by $0.25 for every $1.00 you have in taxable income over the threshold amount.)

AMT Exemption Amounts by Filing Status

	2015
Married filing jointly	$83,400
Single or head of household	$53,600
Married filing separately	$41,700

AMT Exemption Phaseout Threshold

	2015
Married filing jointly	$158,900
Single or head of household	$119,200
Married filing separately	$79,450

Note: *In the context of AMT exemption amounts and tax rates, taxable income really refers to your alternative minimum taxable income (AMTI). Your AMTI is your regular taxable income increased or decreased by AMT preferences and adjustments.*

The lower maximum tax rates that generally apply to long-term capital gains and qualified dividends apply to the AMT calculation as well. So even under AMT rules, a maximum rate of 20%, 15% (for individuals in the 25%, 28%, 33%, or 35% tax bracket), or 0% (for individuals in the 10% or 15% tax bracket) applies. However, long-term capital gains and qualified dividends are included when you determine your taxable income under the AMT system. That means large capital gains and qualifying dividends can push you into the phaseout range for AMT exemptions and can indirectly increase AMT exposure.

Note: *When it comes to the phaseout of AMT exemption amounts, a special calculation applies to individuals who are married filing separately. These individuals have to add an additional amount to their AMTI before calculating the exemption phaseout.*

AMT rates

Under the AMT, the first $185,400 (for 2015) of your taxable income is taxed at a rate of 26%. If your filing status is married filing separately, the 26% rate applies to your first $92,700 (for 2015) of taxable income. Taxable income above these thresholds is taxed at a flat rate of 28%.

IMPORTANT DISCLOSURES

Eddy Company, LLC is a Massachusetts Registered Investment Advisor. Securities offered through Interactive Brokers Group, LLC. Member FINRA/SIPC/NYSE.

This document and its attachments are strictly confidential and is intended for use by the addressee(s) only unless otherwise indicated, and should not be reproduced and/or distributed to any other person. If you are not the intended recipient please contact the sender and dispose of the message. You are hereby notified that any disclosure, copying, distribution, or use of the information contained herein (including its attachments or any reliance thereon) is STRICTLY PROHIBITED without the prior written consent of the author. Neither the information nor any opinion expressed constitutes an offer, an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"), nor an official confirmation of any transaction. This presentation may contain forward-looking statements that by their very nature, involve risks and uncertainties and may be influenced by factors that cause actual outcomes to be materially different from those expected.

Eddy Company, LLC
Brian Eddy, MBA, CFA, CFP (R)
Founder/Financial & Tax Planner
100 Cummings Center
Suite 207-P
Beverly, MA 01915
978-922-0435
617-816-5493
brian@eddycompany.com
www.eddycompany.com

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2015