TFC FINANCIAL
The Financial Counselors

Tax Letter
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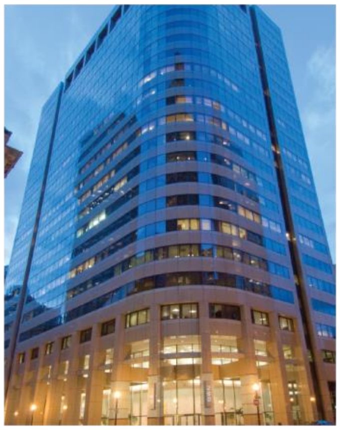
OUR VIEW



Income Tax Planning Update: Overview and Purpose

As the fall season begins, we would like to provide an update on tax developments since the 2014 filing season to assist in year-end planning. We also wish to provide a brief update on increasing incidents of tax-filing identify theft and what to do if contacted by the IRS concerning a possible identity theft attempt. Lastly we share a view on the nature of today's personal income tax calculation, its major variables, and the importance of a tax projection to most efficiently navigate the complexity of our current tax system when making financial decisions.

Changes for 2015 Tax Year

As we are entering the fourth quarter, it is worth a reminder that many important tax-related amounts were adjusted for inflation for 2015. If you have not yet done so, you should adjust elections to maximize the benefits available to you. The increased amounts for 2015 include:

- Maximum elective deferral to 401(k), 403(b), 457 plans — $18,000
- 401(k), 403(b), and 457 plans Catch-up contributions — $6,000 (age 50 or older)
- Maximum deferrals to SEP IRA & Defined Contribution plans — $53,000
- Health Savings Account Contribution limits — Single $3,350, Family $6,650
- Traditional and Roth IRA Contribution limits — $5,500
- Traditional and Roth IRA Contribution Catch-up contributions — $1,000 (age 50 or older)
- Employer-sponsored Flexible Spending Account contributions — $2,550
- Annual gift tax exclusion per donee (did not change from 2014) — $14,000
- Maximum Long-term Care insurance premiums eligible for deduction:

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Age	40 or under	41-50	51-60	61-70	Over 70
Deductible Amount	$380	$710	$1,430	$3,800	$4,750

In addition to these changes, there are others that do not require action on the part of the taxpayer, but may provide modest tax relief for those who are impacted. These include increases to the income-level phase-out amounts for making deductible traditional IRA contributions when covered by an employer plan, increases to the Alternative Minimum Tax (AMT) exemption amounts, increased personal exemption and standard deduction amounts, and increased income level phase-outs for higher education tax credits. These inflation increases are modest though, and most of these tax benefits may be entirely phased-out for higher income taxpayers.

Tax legislation is currently making its way through Congress that would extend a number of aspects of the tax code that expired at the end of 2014. The highlights for individual taxpayers would be an extension of tax-free charitable contributions up to $100,000 from IRAs for those age 70 ½ or older and the rules on the calculation of depreciation for certain assets placed in service before January 1, 2017. If these "extensions" of expired provisions do pass into law it may not be until the very end of 2015, making planning difficult, but still possible.

Increases in Tax-Filing Identify Theft

The IRS has seen a significant increase in identity theft over the past few years. A common attempt is to submit a false tax return with the actual name and social security number of the taxpayer.

The taxpayer will receive a Letter 5071C from the IRS when they have stopped processing what they believe to be a suspicious tax return, purportedly an attempted identity theft. If you receive a Letter 5071C, the fastest way to address the issue is through the IRS web site, idverify.irs.gov, but all communication you receive regarding your tax filings should be presented to your tax preparer prior to responding or taking any action. ***The IRS will never contact taxpayers via email or unsolicited telephone calls to ask for personal or identifying information***.

The determination of tax liability for higher income (generally $250,000 in income) taxpayers has become a multi-dimensional calculation.

Nature of Today's Personal U.S. Income Tax System

We often think of our tax liability and make decisions in terms of our "marginal" tax rate, which is the rate of tax paid on the next dollar of taxable income incurred. Marginal tax rates were traditionally based on taxable income corresponding to tax brackets and associated tax rates. There are currently seven (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) tax brackets for ordinary income and three (0%, 15%, and 20%) brackets for long-term capital gain and qualified dividend income.

In recent years the determination of tax liability for higher income (generally $250,000 in income) taxpayers has become a multi-dimensional calculation including, but not limited to, the current ordinary income tax rates and brackets, varying capital gains tax rates based on income level, the Alternative Minimum Tax calculation, the phase-out of itemized deductions and personal exemptions when income levels pass certain thresholds, and the introduction of the Net Investment Income Tax (NIIT) of 3.8%, and the Additional Medicare Tax of 0.9%. Realizing additional ordinary or capital gain income, charitable giving, timing of state estimated tax payments, and investment decisions all impact your tax calculation and liability in a way they have not in the past, with the phase-out of benefits and deductions and additional taxes which were not part of the tax calculation until recently.

A brief summary of some of the most significant variables in the calculation of a 1040 tax return:

- Pease Limitation on Itemized Deductions – Itemized deductions, identified on Schedule A, are reduced by 3% of the taxpayer's adjusted gross income (line 38 of Form 1040) in excess of $309,900 (Married Filing Jointly or MFJ) and $258,250 (Single). A taxpayer cannot lose more than 80% of their itemized deductions as a result of the limitation. This effectively is an increase in the top marginal tax brackets for those impacted.

- Personal Exemption Phase-out – Phase-out of the personal exemption of $4,000 begins at an adjusted gross income (AGI) of $309,900 (MFJ) and $258,250 (Single).

- Alternative Minimum Tax (AMT) Calculation – A complex and almost parallel tax calculation to the calculation of your regular tax. Taxpayers end up paying the higher of the two calculations. For the majority of taxpayers who pay AMT, the AMT calculation eliminates the value of their Scheduled A state income tax deduction, miscellaneous itemized deductions, investment interest expense, and reduces the value of medical and dental deductions. The qualified mortgage interest deduction is allowed and not impacted by the AMT calculation. After providing an exemption, AMT Income is subject to either a 26% or 28% tax rate. The resulting Alternative Minimum Tax in excess of the taxpayer's regular tax is added to the tax due.

- Net Investment Income Tax (NIIT) – Taxpayers with income greater than $250,000 (MFJ) and $200,000 (Single) who have investment income are subject to a 3.8% tax on the lesser of net (after expense) investment income and modified adjusted gross income (AGI) over the threshold income amounts. Investment income is defined as the total gross income from taxable interest, dividends, annuities, royalties, rents, and capital gains from the sale of property.

- Additional Medicare Tax – A 0.9% tax on earned income in excess of $250,000 (MFJ) and $200,000 (Single)

As illustrated by these two phase-out calculations and three "additional" taxes, determining your marginal and effective tax rates is now a much more complex calculation and cannot be left to a reading of the standard tax brackets and rates. To fully understand their tax impact, a tax projection should accompany significant financial decisions as a step in the decision-making process. Tax projections can be run on a multi-year and multi-case basis to make comparisons and determine outcomes of possible decisions.

In addition, it is important to keep in mind that the timing of the realization of income, major itemized tax deductions, or even the payment of tax may have a significant impact on your tax calculation and liability. Planning should not be limited strictly to higher incomes, as the tax code does allow for opportunities for tax efficiency such as realizing taxable income in a relatively low income year. Recognizing long-term capital gains at a 0% tax rate and Roth IRA or Roth 401(k) conversions at lower tax rates are both examples where multi-year planning can create tax efficiencies with the strategic realization of income.

Conclusion

Tax compliance and planning remains complicated, but is also not without opportunities to minimize tax liability both in 2015 and future years. You should consult with your tax advisor for the development of a tax projection or advice specific to your situation.

Year-to-date portfolio dividend, interest, capital gain/loss, and management fees are available on your TFC portal and custodian (Schwab/Fidelity) website login. Your TFC advisor can provide estimates of year-end income distributions for portfolio mutual funds beginning in mid-November, which may help further refine year-end estimated tax payments and tax planning.

Please do not hesitate to contact your TFC Financial Management advisor with any questions concerning this tax letter or with questions on year-end planning in general.

As always we welcome your suggestions and feedback.

Sincerely,

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