

MARKS PANETH TAX ALERT: MANY COST-OF-LIVING ADJUSTMENTS RISE MODESTLY FOR 2015

On Oct. 30, the IRS issued its cost-of-living adjustments for 2015. In a nutshell, with inflation remaining in check, many amounts increased only slightly, and some stayed at 2014 levels. As you implement 2014 year end tax planning strategies, be sure to take these 2015 adjustments into account in your planning.

Individual income taxes

Tax brackets will widen and personal exemptions will increase slightly for 2015.

Tax-bracket thresholds increase for each filing status but, because they're based on percentages, they increase more significantly for the higher brackets. For example, the top of the 10% bracket increases by \$150 to \$300, depending on filing status, but the top of the 35% bracket increases by \$3,625 to \$7,250, again depending on filing status.

2015 ordinary income tax brackets				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	\$0 - \$9,225	\$0 - \$13,150	\$0 - \$18,450	\$0 - \$9,225
15%	\$9,226 - \$37,450	\$13,151 - \$50,200	\$18,451 - \$74,900	\$9,226 - \$37,450
25%	\$37,451 - \$90,750	\$50,201 - 129,600	\$74,901 - 151,200	\$37,451 - \$75,600
28%	\$90,751 - \$189,300	\$129,601 - \$209,850	\$151,201 - \$230,450	\$75,601 - \$115,225
33%	\$189,301 - \$411,500	\$209,851 - \$411,500	\$230,451 - \$411,500	\$115,226 - \$205,750
35%	\$411,501 - \$413,200	\$411,501 - \$439,000	\$411,501 - \$464,850	\$205,751 - \$232,425
39.6%	Over \$413,200	Over \$439,000	Over \$464,850	Over \$232,425

The personal and dependency exemption increases by only \$50, to \$4,000 for 2015. The exemption is subject to a phaseout, which reduces exemptions by 2% for each \$2,500 (or portion thereof) by which a taxpayer's adjusted gross income (AGI) exceeds the applicable threshold (2% of each \$1,250 for separate filers).

For 2015, the phaseout starting points increase by \$2,425 to \$4,850, to AGI of \$258,250 (singles), \$284,050 (heads of households), \$309,900 (joint filers), and \$154,950 (separate filers). The exemption phases out completely at \$380,750 (singles), \$406,550 (heads of households), \$432,400 (joint filers), and \$216,200 (separate filers).

Your AGI also may affect some of your itemized deductions. An AGI-based limit reduces certain otherwise allowable deductions by 3% of the amount by which a taxpayer's AGI exceeds the applicable threshold (not to exceed 80% of

otherwise allowable deductions). For 2015, the thresholds are \$309,900 (up from \$305,050) for joint filers, \$284,050 (up from \$279,650) for heads of households, \$258,250 (up from \$254,200) for singles and \$154,950 (up from \$152,525) for separate filers.

AMT

The alternative minimum tax (AMT) is a separate tax system that limits some deductions, doesn't permit others and treats certain income items differently. If your AMT liability is greater than your regular tax liability, you must pay the AMT.

Like the regular tax brackets, the AMT brackets are annually indexed for inflation. For 2015, the threshold for the 28% bracket increased by \$2,900 for all filing statuses except married filing separately, which increased by half that amount.

2015 AMT brackets				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	\$0 - \$185,400	\$0 - \$185,400	\$0 - \$185,400	\$0 - \$92,700
28%	Over \$185,400	Over \$185,400	Over \$185,400	Over \$92,700

The AMT exemptions and exemption phaseouts are also indexed. The exemption amounts for 2015 are \$53,600 for singles and heads of households and \$83,400 for joint filers, increasing by \$800 and \$1,300, respectively, over 2014 amounts. The inflation-adjusted phaseout ranges for 2015 are \$119,200–\$333,600 (singles and heads of households) and \$158,900–\$492,500 (joint filers). (Amounts for separate filers are half of those for joint filers.)

Education- and child-related breaks

The maximum benefits of various education- and child-related breaks generally remain the same for 2015. But most of these breaks are also limited based on the taxpayer's modified adjusted gross income (MAGI). Taxpayers whose MAGIs are within the applicable phaseout range are eligible for a partial break — breaks are eliminated for those whose MAGIs exceed the top of the range.

The MAGI phaseout ranges generally remain the same or increase modestly for 2015, depending on the break. For example:

The American Opportunity credit. The MAGI phaseout ranges for this education credit (maximum \$2,500 per eligible student) remain the same for 2015: \$160,000–\$180,000 for joint filers and \$80,000–\$90,000 for other filers.

The Lifetime Learning credit. The MAGI phaseout ranges for this education credit (maximum \$2,000 per tax return) increase for 2015; they're \$110,000–\$130,000 for joint filers and \$55,000–\$65,000 for other filers — up \$2,000 for joint filers and \$1,000 for others.

The adoption credit. The MAGI phaseout ranges for this credit also increase for 2015 — by \$3,130, to \$201,010–\$241,010 for joint, head-of-household and single filers. The maximum credit increases by \$210, to \$13,400 for 2015.

(Note: Married couples filing separately generally aren't eligible for these credits.)

These are only some of the education- and child-related breaks that may benefit you. Keep in mind that, if your MAGI is too high for you to qualify for a break for your child's education, your child might be eligible.

Retirement plans

Many retirement-plan-related limits increase slightly in 2015; thus, you may have opportunities to increase your retirement savings:

Type of limitation	2014 limit	2015 limit
Elective deferrals to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans	\$17,500	\$18,000
Annual benefit for defined benefit plans	\$210,000	\$210,000
Contributions to defined contribution plans	\$52,000	\$53,000
Contributions to SIMPLEs	\$12,000	\$12,500
Contributions to IRAs	\$5,500	\$5,500
Catch-up contributions to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans	\$5,500	\$6,000
Catch-up contributions to SIMPLEs	\$2,500	\$3,000
Catch-up contributions to IRAs	\$1,000	\$1,000
Compensation for benefit purposes for qualified plans and SEPs	\$260,000	\$265,000
Minimum compensation for SEP coverage	\$550	\$600
Highly compensated employee threshold	\$115,000	\$120,000

Your MAGI may reduce or even eliminate your ability to take advantage of IRAs. Fortunately, IRA-related MAGI phaseout range limits all will increase for 2015:

Traditional IRAs. MAGI phaseout ranges apply to the deductibility of contributions if the taxpayer (or his or her spouse) participates in an employer-sponsored retirement plan:

- For married taxpayers filing jointly, the phaseout range is specific to each spouse based on whether he or she is a participant in an employer-sponsored plan:
 - For a spouse who participates, the 2015 phaseout range limits increase by \$2,000, to \$98,000–\$118,000.
 - For a spouse who doesn't participate, the 2015 phaseout range limits also increase by \$2,000, to \$183,000–\$193,000.

- For single and head-of-household taxpayers participating in an employer-sponsored plan, the 2015 phaseout range limits increase by \$1,000, to \$61,000–\$71,000.

Taxpayers with MAGIs within the applicable range can deduct a partial contribution; those with MAGIs exceeding the applicable range can't deduct any IRA contribution.

But a taxpayer whose deduction is reduced or eliminated can make *nondeductible* traditional IRA contributions. The \$5,500 contribution limit (plus \$1,000 catch-up if applicable and reduced by any Roth IRA contributions) still applies. Nondeductible traditional IRA contributions may be beneficial if your MAGI is also too high for you to contribute (or fully contribute) to a Roth IRA.

Roth IRAs. Whether you participate in an employer-sponsored plan doesn't affect your ability to contribute to a Roth IRA, but MAGI limits may reduce or eliminate your ability to contribute:

- For married taxpayers filing jointly, the 2015 phaseout range limits increase by \$2,000, to \$183,000–\$193,000.
- For single and head-of-household taxpayers, the 2015 phaseout range limits also increase by \$2,000, to \$116,000–\$131,000.

You can make a partial contribution if your MAGI falls within the applicable range, but no contribution if it exceeds the top of the range.

(Note: Married taxpayers filing separately are subject to much lower phaseout ranges for both traditional and Roth IRAs.)

Gift and estate taxes

The unified gift and estate tax exemption and the generation-skipping transfer (GST) tax exemption are both adjusted annually for inflation. For 2015 the amount is \$5.43 million (up from \$5.34 million for 2014).

The annual gift tax exclusion remains at \$14,000 for 2015. It's adjusted only in \$1,000 increments, so it typically increases only every few years. It increased to \$14,000 in 2013, so it might go up again for 2016.

Is tax relief on your horizon?

With the 2015 cost-of-living adjustment amounts trending slightly higher, you have an opportunity to realize a little bit of tax relief next year. In addition, with many retirement-plan-related limits also increasing, you may have the chance to boost your retirement savings. If you have questions on the best tax-saving strategies to implement based on the 2015 numbers, please give us a call. We'd be happy to help.

FOR MORE INFORMATION

If you have questions about this alert, please contact [Robert Hughes](#), Principal, by phone at 212.503.8942 or by email at rhughes@markspaneth.com, or any of our [Marks Paneth professionals](#).

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