2015 YEAR-END TAX PLANNING

Time is running out to make important planning moves before the year's end, so don't delay.

The changes in various tax provisions brought about with the 2012 Tax Act continue to make planning for 2015 and future years more complex and challenging. We created this tax planning guide to help you understand how these changes may affect you.

FIFTH THIRD BANK

Contact your **Client Consultant** or **Fifth Third advisor** for more information.

THE CURRENT ENVIRONMENT

Congress is scheduled to adjourn for the year on Dec. 18, 2015. Major tax policy changes this year are highly unlikely as a result of the run up to the November 2016 elections, a partisan landscape (Democratic president and Republican congress), and attention to the economy and job growth. What may occur before year-end is an extension of or a permanent policy regarding various tax provisions that expired at the end of 2014:

- Itemized deductions for state and local sales taxes on Schedule A
- Above-the-line deductions for qualified tuition and related expenses
- Distributions from Individual Retirement Accounts (IRAs) for charitable contributions, a giving strategy that allows IRA owners age 70½ or older to exclude up to $100,000 a year from income if the IRA funds are paid directly to certain public charities
- Deductions for certain expenses for elementary and secondary school teachers
- Deductions allowed for mortgage insurance premiums on qualified residence interest

SUPREME COURT EXTENDS SAME-SEX MARRIAGE NATIONWIDE

In 2013, the Supreme Court held that Section 3 of the 1996 Defense of Marriage Act (DOMA) was unconstitutional. Section 3 of DOMA provided that marriage, for federal purposes, was to be defined only as a legal union between one man and one woman. The 2013 Supreme Court decision allowed same-sex marriage to be recognized at the federal level. The Treasury Department and the Internal Revenue Service announced that same sex-couples, regardless of where they live, will be recognized as married for federal tax purposes so long as the couple was legally married in a state that sanctions same-sex marriages.

As of the date of this ruling, only 13 states and Washington D.C. sanctioned same-sex marriages. In 2015, the Supreme Court held that every state must permit same-sex marriages.

The results of both Supreme Court decisions mean that same-sex marriages are legally recognized in every state of the Union. Same-sex married couples now enjoy federal and state tax benefits afforded to all married couples. The 2015 ruling not only applies to same-sex couples' right to marry (and enjoy all federal and state tax benefits), but it applies to same-sex couples' rights with regard to divorce, adoption and child custody, separate agreements, marital property, spousal survivorship benefits, inheritance through intestacy, priority rights in guardianship proceedings, contract rights, and many other state rights afforded to spouses.

Newly married same-sex couples have new tax planning opportunities to consider, as well as a host of new financial and estate planning issues that should be addressed.

HIGHLIGHTS FROM THE PRESIDENT'S FISCAL YEAR 2016 BUDGET PROPOSAL

Capital gains tax rates

The president proposed increasing the long-term capital gains and qualified dividends tax rate from 20 percent to 24.2 percent for tax years beginning after 2015.

Higher income taxpayers

The president proposed to limit the value of itemized deductions and other tax preferences to 28 percent for certain higher-income taxpayers. The president also renewed his "Buffett Rule" proposal of taxing higher-income taxpayers with large deductions and other tax preferences at a minimum 30 percent tax rate.

Estate and gift planning

The president's budget included treating bequests and gifts of appreciated property above certain threshold amounts as realization events that would trigger tax liability for capital gains.

The president also renewed his proposal to reinstate the 2009 estate and gift tax rates and exclusions. That benchmark calls for a top rate of 45 percent and an exclusion of $3.5 million for estates and $1 million for lifetime gifts.

Corporate tax rate

The president's budget would reduce the corporate tax rate to 28 percent, with a 25 percent effective rate for domestic manufacturing.

IMPACT OF THE TAX ACT OF 2012 TAX LAW CHANGES

Income tax rates

The Tax Act of 2012 imposed a new top tax rate of 39.6 percent. For 2015, the top rate is imposed on taxable income in excess of $413,201 for single taxpayers, $439,001 for heads of household, and $464,851 for married taxpayers filing jointly ($232,426 for each married spouse filing separately).

Dividends and capital gains

A 20 percent tax rate applies to qualified dividends and long-term capital gains for taxpayers in the top income tax bracket, while the 15 percent rate is retained for taxpayers in the 25 percent and 35 percent brackets.

A zero percent rate applies to taxpayers in the 10 percent and 15 percent brackets.

Itemized deduction and personal exemption phase-outs

The itemized deduction phase-out and personal exemption phase-out apply to taxpayers with Adjusted Gross Income (AGI) above $258,250 for single taxpayers, $284,050 for heads of household, $309,900 for married taxpayers filing jointly ($154,950 for each married spouse filing separately).

Additional hospital insurance tax on high-income taxpayers

The employee portion of the hospital insurance of the Federal Insurance Contributions Act (FICA), normally 1.45 percent of eligible wages and self-employment income, is increased by 0.9 percent on wages and self-employment income that exceed a threshold amount.

In the case of a joint tax return, the additional tax is imposed on the combined wages and self-employment income of both the taxpayer and the taxpayer's spouse.

The threshold amount is $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all other filers.

Medicare tax on investment income

Since Jan. 1, 2013, Sec. 1411 of the Internal Revenue Code imposes a tax on individuals equal to 3.8 percent of the lesser of the individual's net investment income* for the year or the amount the individual's Modified Adjusted Gross Income (MAGI) exceeds a threshold amount.

For estates and trusts, the tax equals 3.8 percent of the lesser of undistributed net investment income* or AGI over the dollar amount at which the highest trust and estate tax bracket begins.

The threshold amount is $250,000 for married individuals filing a joint return and surviving spouses, $125,000 for married taxpayers filing separately, and $200,000 for other individuals.

*Net investment income is investment income reduced by deductions properly allocable to that income. Investment income includes income from interest, dividends, royalties, rents, and net gain from disposition of property (other than such income derived in the ordinary course of a trade or business). However, income from a trade or business that is a passive activity and from a trade or business of trading in financial instruments or commodities is included in investment income.

STRATEGIES TO CONSIDER

Annual year-end planning is most often focused on income taxes. Other considerations that should be reviewed and discussed with your advisor include:

Current asset allocations and portfolios

Work with your advisor to ensure that your allocation is aligned with your goals and time horizon for both your taxable and tax-deferred accounts. Make any adjustments as necessary.

Estate planning documents

Make sure your documents and beneficiary designations are still appropriate for your plans and goals, especially if you have had a recent life change—marriage, birth of a child, moved to a new state, or had a significant increase in wealth.

Timing of income and deductions

Higher income tax rates, surtaxes related to the health care law, and limitations on personal exemptions and itemized deductions merit a discussion with your tax advisor regarding the timing of income, including income type and deductions.

IRAs

If you are over 70½, you must take your required minimum distribution from your traditional IRA prior to December 31. If you are under 70½, consider converting some or all of your traditional IRA to a Roth IRA. Any decision on your retirement accounts should be based on your individual situation. A conversion can occur in one year or over several years.

Gifting plans

The 2015 annual gift exclusion is $14,000 for direct gifts to individuals (i.e., cash, property, loan forgiveness). Gifts not subject to the annual gift exclusion include education costs and medical costs if the payment is made directly to the educational institution or medical provider. Taxpayers also have the highest transfer tax exemption in history this year. In 2015, you can gift $5.43 million (per individual) tax free either during your life or at death.

Dividend-paying assets in taxable accounts

Preferential treatment on qualified dividends still exists. The tax rate on qualified dividends (15 or 20 percent) is dependent on your income tax bracket. In addition, all dividends may be subject to the 3.8 percent Medicare tax. Assuming it complements your financial goals, you may consider working with your advisor to rebalance your portfolio with less of an emphasis on dividend paying stocks.

Gains and losses in taxable accounts

Preferential treatment on long-term capital gains still exists. The tax rate on long-term capital gains (15 or 20 percent) is dependent on your income tax bracket. In addition, some gains may be subject to the 3.8 percent Medicare tax. If the investment analysis requires changes in taxable accounts, review possible gains and losses and the timing of such in tax years 2015 and 2016 in conjunction with the: 1) Individual income tax bracket, 2) Itemized deduction and personal exemption phase-outs, and 3) Medicare tax on investment income.

BUSINESS TAX STRATEGIES

Affordable Health Care Act

The "employer shared responsibility" provision of the Affordable Health Care Act requires large employers to offer affordable health insurance that provides minimum value to all full-time employees. If such coverage is not provided, the employer will be assessed a penalty.

- Employers with 100 or more full-time employees were subject to the "employer shared responsibility provisions" in 2015. The penalty applied if minimum essential coverage was not offered to 70 percent or more of their full-time employees. The 70 percent threshold increases to 95 percent in 2016, so large employers may need to reassess their health plan offerings for next year.
- Employers with between 50 and 99 full-time employees will be subject to the "employer shared responsibility provisions" in 2016 with the 95 percent threshold applying immediately.
- Employers (both with 50-99 and 100 or more employees) are subject to reporting requirements beginning with the 2015 calendar year. Reporting required to be furnished to the employee must be done by Jan. 31, 2016, and reporting required to be furnished to the IRS must be filed by Feb. 28, 2016 (or March 31 if filed electronically).

Defer or accelerate income and deductions

For pass-through entities such as sole proprietorships, S corporations, partnerships and LLCs, the owners' share of income is taxed at personal income tax rates.

- If the owner expects to be in the same or lower tax bracket in 2016 as they were in 2015, deferring income to 2016 and accelerating deductions in 2015 will cause some tax to be deferred.
- If the owner expects business income to increase in 2016, thereby putting the owner in a higher personal tax bracket for 2016, the business might consider accelerating income in 2015 and pay tax at the lower 2015 bracket, while deferring deductions to 2016 and offsetting income taxed in the higher 2016 bracket.

For C corporations, 2016 corporate tax rates are scheduled to be the same as in 2015.

- If the corporation expects to be in the same or lower bracket in 2016, the corporation might defer income to 2016 and accelerate deductions in 2015.
- If the corporation expects to be in a higher bracket in 2016, the corporation might accelerate income in 2015 and defer deductions to 2016.

Section 179 expensing

Section 179 allows businesses to expense part or all of the cost of new and used qualified property they acquire in the year when the assets are placed in service.

- For 2015, expensing is subject to an annual limit of $25,000, and this limit is phased out dollar for dollar if purchases exceed $200,000. The election can't reduce taxable income below zero.
- Congress may still retroactively extend (and make permanent) the higher expensing and asset purchase limits allowable in tax year 2014 through the 2015 tax year, which were $500,000 and $2,000,000, respectively.

Bonus depreciation

In 2002, businesses were able to claim additional first-year (or bonus) depreciation for eligible property acquired and placed in service in that year. Congress extended this bonus depreciation allowance each year since 2002 and through 2014, but it has not yet been extended for 2015.

- Congress may still retroactively extend the bonus appreciation for assets placed in service through Dec. 31, 2015.
- If extended as expected, the bonus depreciation allowance would be 50 percent.

Other tax credits

In addition to the Section 179 and bonus depreciation provisions above, many other deductions and credits enjoyed in prior years became less advantageous or expired altogether by year-end 2014. Congress is currently considering a bill to extend the following provisions, for which your business may qualify:

- Research and Experimentation Tax Credit
- New Markets Tax Credit
- Work Opportunity Tax Credit
- 15-Year Straight-Line Cost Recovery for Qualified Business Improvements
- Multiple Energy Credits and Allowances

2015 TAX SHEET

MARRIED, JOINT		
If Taxable Income Is Between:	*Your 2015 Tax Is:*	*Of Amount Over:*
$0-$18,450	10%	$0
$18,451-$74,900	$1,845 + 15%	$18,450
$74,901-$151,200	$10,312.50 + 25%	$74,900
$151,201-$230,450	$29,387.50 + 28%	$151,200
$230,451-$411,500	$51,577.50 + 33%	$230,450
$411,501-$464,850	$111,324.00 + 35%	$411,500
$464,851 and above	$129,996.50 + 39.6%	$464,850
SINGLE		
$0-$9,225	10%	$0
$9,226-$37,450	$922.50 + 15%	$9,225
$37,451-$90,750	$5,156.25 + 25%	$37,450
$90,751-$189,300	$18,481.25 + 28%	$90,750
$189,301-$411,500	$46,075.25 + 33%	$189,300
$411,501-$413,200	$119,401.25 + 35%	$411,500
$413,201 and above	$119,996.25 + 39.6%	$413,200
MARRIED FILING SEPARATELY		
$0-$9,225	10%	$0
$9,226-$37,450	$922.50 + 15%	$9,225
$37,451-$75,600	$5,156.25 + 25%	$37,450
$75,601-$115,225	$14,693.75 + 28%	$75,600
$115,226-$205,750	$25,788.75 + 33%	$115,225
$205,751-$232,425	$55,662.00 + 35%	$205,750
$232,426 and above	$64,998.25 + 39.6%	$232,425
HEAD OF HOUSEHOLD		
$0-$13,150	10%	$0
$13,151-$50,200	$1,315 + 15%	$13,150
$50,201-$129,600	$6,872.50 + 25%	$50,200
$129,601-$209,850	$26,722.50 + 28%	$129,600
$209,851-$411,500	$49,192.50 + 33%	$209,850
$411,501-$439,000	$115,737 + 35%	$411,500
$439,001 and above	$125,362 + 39.6%	$439,000
ESTATES AND TRUSTS		
$0-$2,500	15%	$0
$2,501-$5,900	$375 + 25%	$2,500
$5,901-$9,050	$1,225 + 28%	$5,900
$9,051-$12,300	$2,107 + 33%	$9,050
$12,301 and above	$3,179.50 + 39.6%	$12,300

CORPORATIONS	
$0-$50,000	15%
$50,001-$75,000	25%
$75,001-$100,000	34%
$100,001-$335,000	39%[1]
$335,001-$10,000,000	34%
$10,000,001-$15,000,000	35%
$15,000,001-$18,333,333	38%
$18,333,334 and above	35%

[1] *Reflects a 5% surtax which phases out the benefit of the 15% and 25% rates.*

STANDARD DEDUCTION	
Married, Joint	$12,600
Single	$6,300
Head of Household	$9,250
Married, Separate	$6,300
Blind or over age 65: Married - add $1,250; Single - add $1,550	

ITEMIZED DEDUCTIONS PHASE OUT BEGINS	
Married, Joint	$309,900
Single	$258,250
Married, Separate	$154,950
Head of Household	$284,050

Personal Exemption	$4,000

Kiddie Tax Exclusion	$2,100

PERSONAL EXEMPTION PHASE OUT BEGINS	
Married, Joint	$309,900
Single	$258,250
Married, Separate	$154,950
Head of Household	$284,050

ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNT	
Married, Joint	$83,400
Single	$53,600
Married, Separate	$41,700
Head of Household	$53,600

FICA/SECA RATES	
Employee OASDI Component	6.2%
Self Employed OASDI Component	12.4%

3.8% MEDICARE SURTAX ON UNEARNED INCOME BEGINS	
Married, Joint	$250,000
Married, Separate	$125,000
Others	$200,000

0.9% ADDITIONAL MEDICARE TAX ON WAGES BEGINS	
Married, Joint	$250,000
Married, Separate	$125,000
Others	$200,000

QUALIFIED DIVIDENDS AND CAPITAL GAINS	
That would otherwise be taxed at Are taxed at	10% or 15% 0%
That would otherwise be taxed at Are taxed at	25% - 35% 15%
That would otherwise be taxed at Are taxed at	39.6% 20%

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IRA AND PENSION PLAN LIMITS

IRA CONTRIBUTION LIMIT - LESSER OF TAXABLE COMPENSATION OR:	
Under age 50	$5,500
Age 50 and over (Under 70 1/2 for Traditional)	$6,500
PHASE OUT FOR DEDUCTING IRA CONTRIBUTIONS	
Married, Joint	$98,000-$118,000 MAGI
Married, Separate	$0-$10,000 MAGI
Single, Head of Household	$61,000-$71,000 MAGI
Phase out for deducting spousal IRA	$183,000-$193,000 MAGI
PHASE OUT OF ROTH CONTRIBUTION ELIGIBILITY	
Married, Joint	$183,000-$193,000 MAGI
Single, Head of Household	$116,000-$131,000 MAGI
Married, Filing Separately	$0-$10,000 MAGI
SELF-EMPLOYED PENSION (SEP) CONTRIBUTIONS	
Contribution Limit:	
Employees	25% of Compensation up to $53,000
Self-Employed Persons	20% of Earned Income up to $53,000
Minimum Compensation for Participation	$600
SIMPLE ELECTIVE DEFERRAL	
Under age 50	$12,500
Age 50 and over	$15,500

401(k), 403(b), 457 and SARSEP elective deferral under age 50	$18,000
401(k), 403 (b), 457 and SARSEP elective deferral age 50 and over	$24,000

QUALIFIED RETIREMENT PLAN EMPLOYER CONTRIBUTION LIMITS	
Annual defined contribution limit	$53,000
Annual defined benefit limit	$210,000
Highly compensated employee	$120,000
Key employee in top heavy plans makes	$170,000
Annual compensation for qualified plans	$265,000

RETIREMENT TAX CREDIT	
Married, Filing Jointly	Below $61,000 AGI
Head of Household	Below $45,750 AGI
Single, Married Filing Separately	Below $30,500 AGI

EDUCATION	
Coverdell Education Savings Account	$2,000
Coverdell contribution eligibility phaseout	
Married, Joint	$190,000-$220,000
All Others	$95,000-$110,000

STUDENT LOAN INTEREST DEDUCTION LIMIT	
Married, Joint	$130,000-$160,000
All Others	$65,000-$80,000

PHASE OUT OF LIFETIME LEARNING CREDIT	
Married, Joint	$110,000-$130,000
All Others	$55,000-$65,000

PHASE OUT OF AMERICAN OPPORTUNITY CREDIT[2]	
Married, Joint	$160,000-$180,000
All Others	$80,000-$90,000

[2] Formerly Hope Credit

TAX FREE SAVINGS BOND INTEREST PHASED-OUT	
Married, Filing Jointly	$115,750-$145,750
All Others	$77,200-$92,200

GIFT AND ESTATE TAX	
Gift Tax Annual Exclusion	$14,000
Gift Tax Rate	Maximum 40%
Lifetime Gift Exemption (Unified with Estate Tax)	$5,430,000
Estate Tax Rate	Maximum 40%
Estate Tax Exemption (Unified with Gift Tax)	$5,430,000
GST Tax Rate	40%
GST Exemption	$5,430,000
Annual exclusion for gifts to non-citizen spouses	$147,000

Unused Exemption Available to Surviving Spouses

SOCIAL SECURITY	
FICA taxable income limit	$118,500

MARRIED, SEPARATE[3]	
50% taxable	$0 MAGI
85% taxable	$0 MAGI

MARRIED, JOINT[3]	
50% taxable	$32,000 MAGI
85% taxable	$44,000 MAGI

SINGLE[3]	
50% taxable	$25,000 MAGI
85% taxable	$34,000 MAGI

Source: Internal Revenue Service

[3] Percentage of benefit taxable above MAGI threshold.

GET STARTED TODAY

It is important to remember that these are just some of the tax planning highlights that affect many of our clients.

Tax laws are extremely complex and fluid, and your personal situation should be considered. However, time is running out to make some of these important planning moves before the year's end.

To schedule a meeting and learn more about how Fifth Third Bank can help you achieve your goals, please contact your **Client Consultant** or **Fifth Third advisor.**