2015 year-end planning guide

It is a great time to reflect on the events of the past year with your trusted financial, tax and legal advisors who can help you benefit from year-end planning opportunities.

Advice. Beyond investing. Your financial life encompasses much more than the current markets. It includes your goals for the future and how you want to live right now. We are committed to addressing all of your needs—giving you the confidence to pursue all of life's goals. This includes helping you to stay informed of current trends in investment, tax minimization and wealth transfer strategies.

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Phrases such as "high volatility," "challenging markets" and "rough ride" are all being used in the popular press to describe 2015. This year's market activity makes it all the more important for our clients and their financial teams (Financial Advisors, tax preparers, accountants, attorneys and insurance professionals) to consider all available tax-saving and investment strategies.

Now is the time to begin to review 2015's gains and losses and to actively manage your portfolio to help minimize the income tax consequences of this year's market activity and to properly position your holdings for 2016. Where appropriate, realizing gains, harvesting losses and making well-considered family and philanthropic gifts can go a long way toward increasing what you make and, more importantly, what you keep.

U.S. Court of Appeals Judge Learned Hand is credited with saying "any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes." At UBS it is our hope that you and your financial team will use the information provided in this guide to help position yourself to follow Judge Hand's advice and minimize your tax burden. The professionals at UBS are ready to help.

Legislation watch

The Obama administration's budget proposal for 2016 called for significant changes to the tax code. Among its recommendations, the administration would eliminate the basis step-up at death for appreciated assets and cap the value of specific exclusions and all itemized deductions for individual income tax purposes. However, these recommendations have not gained meaningful traction in Congress to date. The UBS U.S. Office of Public Policy (USOPP) expressed doubt that the legislature will take significant action in 2016 with respect to individual income tax and estate and gift tax laws, citing the partisan atmosphere in Congress and impending election as the reasons. You may wish to pay careful attention to the various presidential candidates' tax reform proposals, which will steer the course of policy decisions as tax reform will be in play in 2017.

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Tax figures to note

	2015	2016
Maximum income tax	39.6%	39.6%
Maximum capital gains rate	20%	20%
Maximum qualified dividends rate	20%	20%
Net investment income tax*	3.8%	3.8%
Medicare payroll tax rate on employees*	2.35%	2.35%
Estate tax exemption	$5.43 million	$5.45 million**
Maximum estate tax rate	40%	40%
Gift tax exemption	$5.43 million	$5.45 million**
Maximum gift tax rate	40%	40%
Generation-skipping transfer (GST) tax exemption	$5.43 million	$5.45 million**
Maximum GST rate	40%	40%
Annual gift tax exclusion	$14,000 per donee	$14,000 per donee**
Annual exclusion gift to non-citizen spouse	$147,000	$148,000**

* Applies to taxpayers with income over certain threshold amounts.
** Projected inflation-indexed amounts.

A Roth IRA can offer tax-free growth of assets and tax-free distributions without any obligation to take RMDs during the original account holder's lifetime.

Tax planning strategies

- **Net gains and losses.** Examine your 2015 short-term gains and losses and long-term gains and losses and determine your capital gains and loss carryforwards to ensure that you are aligning them to the greatest extent possible. Note that you may be able to use up to $3,000 of net capital losses to offset ordinary income for 2015 as well.

- **Harvest tax losses.** Traditionally, investors consider selling assets in taxable (i.e., nonretirement) accounts that have losses at the end of the year. Capital losses are first used to offset capital gains, and, as described above, if capital losses exceed capital gains, you can offset up to $3,000 of other income. Note that if you sell securities for purposes of recognizing a loss, you cannot immediately repurchase the same security to reestablish your market position and still deduct the loss (see discussion below on the "wash sale" rule).

- **Review deductions.** Review with your advisors whether accelerating deductions may result in less tax payable this year; however, you should also analyze whether you would benefit from deferring those deductions to future years when income tax rates could be higher. Payments of deductible expenses such as unreimbursed medical expenses and property taxes can be easily moved to accommodate timing issues.

- **Mutual fund capital gain distribution estimates.** Each year, mutual funds are required to distribute 98.2% of their net capital gains in order to avoid an excise tax. Mutual funds generally post their distribution estimates beginning in October. Once you have reviewed this information, you should estimate your potential tax liability associated with your mutual fund holdings to determine if you should consider offsetting a capital gain with losses or, alternatively, selling the shares in advance of the distribution. In addition, you may wish to postpone the purchase of a mutual fund's shares immediately before it distributes a substantial capital gain.

- **Roth IRA conversion.** Discuss with your tax advisor and Financial Advisor whether it makes sense to convert a traditional IRA to a Roth IRA. When you convert to a Roth IRA, the converted amount of your traditional IRA will be taxed as ordinary income in the conversion year. A Roth IRA can offer significant benefits, most notably tax-free growth of assets, tax-free distributions and no required minimum distributions (RMDs) during the original account holder's lifetime.

  If you convert to a Roth IRA in 2015, you can recharacterize it back to a traditional IRA until as late as October 15, 2016. This gives you time to monitor market conditions and make a decision to undo the Roth conversion if the account value decreases significantly from the time of conversion, thereby avoiding the recognition of income tax based on the higher value of the account on the date the conversion was made. This flexibility can be enhanced further by segregating the Roth IRA into separate accounts invested in non-correlated asset classes. You can then decide whether to recharacterize one or more of the separate accounts based on the performance of the their particular investments, rather than on the performance of a single diversified Roth IRA.

U.S. shareholders of a corporation that inverts are generally deemed to have sold their shares as a result of the inversion and must recognize any associated gains.

- **Assess alternative minimum tax (AMT) liability.** Review your circumstances with your tax advisor to see if you may be impacted by AMT in 2015. Those living in states with high income taxes or high property taxes are more likely to be affected. If you are subject to AMT, your marginal federal income tax rate is 26% or 28% compared with a top marginal bracket rate of 39.6% for regular tax. If you expect to be subject to AMT in 2015 but not subject to AMT in 2016, consider accelerating ordinary and short-term capital gain income in order to take advantage of the lower AMT tax rate. Additionally, you may consider deferring certain deductions to 2016 where their deductible tax benefit may be greater (to include any deductions not deductible for AMT, such as state and local income taxes and property taxes). Conversely, if you are not subject to AMT in 2015 but expect to be in 2016, you may wish to consider reversing the acceleration of income and deferral of deductions previously mentioned. In short, shifting income and expenses between tax years can result in tax savings, but it is crucial to work with your tax advisor to review a "before and after" tax projection prior to implementing a strategy.

- **Corporate tax inversions.** A corporation inversion occurs when a U.S. corporation merges with a foreign corporation, after which the foreign corporation owns the U.S. corporation. While every transaction is different, the U.S. shareholders of a corporation that inverts are generally deemed to have sold their shares as a result of the inversion and must recognize any associated capital gain (but not loss). If you own shares of a corporation that has announced plans to invert but has not yet obtained shareholder approval, you could consider the following courses of action.

  First, you may wish to gift shares of stock to family members who pay capital gains tax at a lower rate than you do. Assuming you are a top bracket taxpayer, transferring shares to a family member whose taxable income is less than $464,851 in 2015 (including the gain recognized on the gifted shares) should mean tax from the inversion gain will be subject to a lower federal tax rate than your own. The larger the gap between your effective capital gains tax rate and that of your family member, the greater the tax savings from this approach. State tax rates must be considered as well since they can make this gap wider or narrower. Second, you may wish to donate the stock to charity, thereby obtaining a charitable deduction for the fair market value of the shares and avoiding the recognition of the capital gain altogether.

  If using either of these approaches, you should act before shareholders approve the inversion. Once shareholders approve the corporate action, under the "assignment of income" theory, the IRS would most likely argue that you have effectively recognized income from the deemed stock sale despite the transfer of shares. In many instances, therefore, charitable gifts will need to be made to an organization that exists or can be formed quickly. A public charity or existing private foundation can work well, while many individuals may choose to open a donor advised fund (DAF) account.

- **Year-end distributions from non-grantor trusts.** Trustees of irrevocable trusts that are treated as separate taxpayers may consider making income distributions to trust beneficiaries who are in lower income tax brackets. This can be particularly beneficial in light of the compressed income tax brackets applicable to trusts, and the lower threshold at which

the 3.8% net investment income tax applies to trusts. Depending on the terms of the trust agreement and applicable state law, it may also be beneficial to distribute capital gain income to beneficiaries in lower income tax brackets. Note that trustees may be able to take advantage of the "65-day rule" that allows a trustee to elect to treat a distribution made during the first 65 days of 2016 to be treated as if made on the last day of 2015. Obviously, trustees must consider the goals and objectives of the trust before making any tax-motivated distributions to beneficiaries.

– **Bonus depreciation.** The tax break allowing taxpayers to deduct a bonus depreciation amount of the depreciable basis of certain tangible property, over and above regular depreciation, expired on December 31, 2014. This bonus allowance permitted businesses to write off their costs more quickly—the benefit was 50% bonus depreciation for qualified property placed in service in 2014. In addition, businesses could accelerate some AMT credits in lieu of bonus depreciation for 2014. As of this writing, Congress has not passed legislation to extend this tax break, however both houses of Congress have introduced legislation to do so.

– **Planning for same-sex couples.** In June 2015, the U.S. Supreme Court ruled that same-sex couples have a fundamental right to marry and to have their marriages recognized in every state. Previously, several states enforced bans against marriages between same-sex partners, creating a scenario where the marriage was recognized for federal tax purposes but not at the state level. As a result, many same-sex couples filed their federal income tax returns as "married filing jointly" or "married filing separately" and their state-level returns with a "single" filing status. Using a married filing status in prior years could have produced a "marriage penalty" or a "marriage bonus," depending on the particular couple's circumstances. Same-sex couples affected by this new ruling that requires marriage recognition at both the state and federal levels should speak with their tax and legal advisors to determine whether state returns from the prior three years can be amended to properly reflect their marital status, bearing in mind that state refunds must be reported on the current year's federal income tax returns.

Legislation was enacted this summer to modify the due dates for several common tax returns.

– **Changes in tax return due dates.** On July 31, 2015, President Obama signed the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, which modified the due dates for several common tax returns. Among the changes, calendar-year partnership returns will now be due March 15 instead of April 15 (fiscal-year partnerships will be due the 15th day of the third month following the close of the fiscal year). Calendar-year C corporation returns will be due April 15 instead of March 15 (fiscal-year C corporation returns will be due the 15th day of the fourth month following the close of the corporation's year). These changes will be in effect for returns starting after December 31, 2015. However, these changes will not apply to C corporation returns with fiscal years ending June 30 until after December 31, 2025.

– **Change in the statute of limitations.** The Internal Revenue Code states that the standard three-year statute of limitation doubles to six years in cases where a taxpayer's return omits income of an amount in excess of 25% of gross income. The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 amended the Code to clarify this section regarding asset sales. Specifically, asset sales where an overstatement of tax basis results in an artificially lower gain

will be considered an omission from gross income. When this omitted amount exceeds 25% of gross income, the six-year statute of limitation will apply. This amendment takes effect for returns filed after July 31, 2015, and for previously filed returns that are still open under the statute of limitation rules in effect at their filing date.

2015 state tax law changes. In addition to being aware of changes in federal tax law, it is important to be aware of certain changes in state tax laws that may affect you. Contact your accountants, attorneys and other advisors to review any changes in these areas specific to your state of residence. It is important to determine how these changes may affect your individual, fiduciary and corporate income tax situation for 2015 and beyond. Some examples of recent state law changes are:

- New York has increased its estate tax exemption. Prior to April 1, 2014, the exemption was $1,000,000. The exemption has been gradually increasing since then ($3,125,000 for decedents dying between April 1, 2015 and March 31, 2016), and will continue to increase until January 1, 2019, at which time it will match the federal estate tax exemption. However, the exemption is completely phased out for estates that exceed the exemption amount by more than 5%. New York also repealed its generation-skipping transfer tax.
- In Hawaii, the state estate tax exemption now matches the federal estate tax exemption at $5,430,000.
- The Minnesota estate tax exemption has been increasing and will continue to increase until 2018, when it will cap out at $2,000,000.
- Connecticut increased the personal income tax rate for high income earners from a maximum marginal rate of 6.7% to a maximum marginal rate of 6.99%, and increased the flat income tax rate for trusts and estates from 6.7% to 6.99%. These changes are effective for taxable years beginning on or after January 1, 2015.
- The United States Supreme Court held that Maryland's disallowance of a fully offsetting state income tax credit for state income taxes paid by Maryland residents to other states is unconstitutional. In particular, Maryland's state tax system contains two components, a "state" income tax and a "county" income tax. Maryland grants its residents a state income tax credit for taxes they pay to other states only against the state portion of the tax, but not the county portion. The Supreme Court held that the partial-credit system is unconstitutional. You should check with your accountant or attorney if you think that this decision may impact your state income tax liability.

Your tax advisors will be able to discuss the impact of relevant changes on your personal circumstances.

Several strategies may be effective to reduce the tax impact of diversifying concentrated stock positions or to hedge against the downside of continued concentration.

Investment planning

- **Concentrated stock positions.** With capital gain tax rates and the 3.8% net investment income tax, the tax cost of diversifying out of a particular appreciated position has increased. Investors with concentrated positions may also have concerns regarding liquidity, cash flow, volatility and more. Your Financial Advisor can help you consider strategies to reduce the tax impact of diversification or hedge against the downside of continued concentration. Consider whether systematic sales, equity collars, exchange funds, prepaid variable forwards, gifts to charity or charitable remainder trusts (discussed further in the charitable planning section) make sense in your situation, and whether it would be helpful to implement any of these strategies before year-end.

Generally, investors are prohibited from recognizing losses if they purchase substantially identical stock or securities within 30 days before or after the sale.

- **Wash sale rule.** In general, the "wash sale" rule prohibits you from recognizing losses if you purchase substantially identical stock or securities within 30 days before or after the sale. If you don't want to wait 31 days to buy the same stock or security, you may consider replacing the investment you sold at a loss with an exchange traded fund (ETF) tied to the company's industry or sector. In this way, the ETF effectively serves as a temporary approximate proxy for individual stock holdings and still enables you to recognize the loss on your original position. You can also replace actively managed mutual fund shares sold at a loss with an ETF, but if you plan to substitute one ETF for another, make sure the funds track different indices to avoid triggering the wash sale rules.

Dates to note

November 30: Since the last trading day of the year is December 31, November 30 is the last day to "double up" for 2015. Doubling up on a security means that you buy a second lot of a security in the same amount of shares as the original holding, thereby allowing you to recognize a loss in 2015 by selling on December 31 without missing any potential appreciation during the wash sale period. Note: undertaking this strategy will result in holding two times the level of stock during the "doubling up" period. During this time, you would be exposed to twice the gains or losses in the stock.

December 31: Last day to sell a security in 2015 for a loss.

February 1: If you sold a security for a loss on December 31 without previously "doubling up," you must wait until February 1, 2016 or later to repurchase the same or substantially similar security in order to avoid the wash sale rule. Note that the 30-day wash sale window closes on Sunday, January 31, but the first trading day is Monday, February 1.

Qualified small business stock

Rollover of gain: Taxpayers who acquire qualified small business stock (QSBS) and hold the stock for six months may elect to defer realized gain upon sale by reinvesting the sale proceeds into new QSBS within 60 days. The taxpayer's basis in the replacement stock is reduced by the amount of gain deferred. Only non-corporate taxpayers may utilize this rollover.

Exclusion of gain: Taxpayers who acquire QSBS and hold the stock for more than five years may exclude up to 100% of the gain from income upon the subsequent sale of the stock. The exclusion is generally 50%, but was increased to 75% for QSBS acquired after February 17, 2009, and before September 28, 2010; and to 100% for QSBS acquired after September 27, 2010, and before January 1, 2015. For QSBS acquired after January 1, 2015, the exclusion returned to 50%. However, the qualifying acquisition date for the 100% gain exclusion has been extended several times over the past five years, most recently as part of the Tax Increase Prevention Act ("TIPA") of 2014 so there could still be legislation enacted this year that would extend this acquisition date even further. QSBS gain is generally treated as a preference item for AMT purposes, except QSBS gain that qualifies for the 100% exclusion, which is not treated as an AMT preference item. Also, be sure to discuss with your tax advisors the applicable state income tax treatment, as each state treats QSBS gain in its own way.

What is considered QSBS? QSBS is stock in a small domestic C corporation that operates an active business. To qualify, the corporation must use at least 80% of its asset value in the active conduct of one or more qualified trades

or businesses, and the gross assets of the corporation, as of the date the stock was originally acquired by the taxpayer, cannot exceed $50 million. Note that certain transfers of QSBS from a partnership to a partner can be made without jeopardizing QSBS status. Confirm with your legal advisors whether stock you may acquire meets the definition of QSBS.

- **Securities-backed lending.** Interest rates are currently at historically low levels. Taxpayers with short-term cash requirements frequently borrow to satisfy their need for cash. Establishing a credit line before it's needed allows for immediate reaction to time-sensitive opportunities, as well as planned (e.g., taxes) and unplanned liabilities. Moreover, borrowing against eligible securities in a portfolio provides access to needed funds while still allowing you to pursue your long-term financial strategy. Fourth quarter estimated tax payments are due on January 15, 2016, so this is a good time to revisit your credit line needs.

- **Portfolio review.** The end of the year is an excellent time to reevaluate the goals of your portfolio, the risk level you are comfortable with, and the liquidity events that are going to influence the next two, five or 10+ years of your financial life. The volatility of the past several years and the prospects of tomorrow may give you pause, and it is important for you to discuss these concerns with your Financial Advisor. Reassessing your portfolio may not only provide you with a sense of comfort but can be quite valuable in terms of identifying appropriate tax planning techniques to utilize.

Making gifts during life can remove the value of the gifted assets and any future appreciation on those assets from the grantor's estate.

Estate planning

- **Using the gift tax exemption to make substantial lifetime gifts.** For 2015, the federal estate and gift tax exemption is $5,430,000 per taxpayer and is projected to be $5,450,000 in 2016. This exemption is indexed for inflation and may be used during your lifetime to make gifts or at death to reduce or eliminate estate taxes. You may consider utilizing a substantial portion (or even all) of your gift tax exemption by making a gift to your family members or others. Such a gift could remove the value of the gifted asset, plus any future appreciation, from your estate. Also, if exemptions later decrease (as proposed in President Obama's fiscal year 2016 budget), gifts that were already made might be excluded from estate tax liability calculations. Remember to inform your tax advisor of all gifts you made in 2015 so he/she can prepare a gift tax return if one is required.

- **Annual exclusion gifts.** Make annual exclusion gifts on or before December 31 each year. For 2015, the annual exclusion is $14,000 ($28,000 for a married couple), allowing you to make annual gifts up to this amount to an unlimited number of individuals, free from gift tax and without using a portion of your gift tax exemption. If you are making such gifts to an irrevocable trust (e.g., a life insurance trust) that provides beneficiaries with a limited withdrawal right (often referred to as "Crummey rights"), make sure the trustee notifies beneficiaries of the right and keeps appropriate documentation. Your legal advisors can help you with this process.

- **Fund education through 529 plans.** Consider funding 529 plans by December 31 to apply 2015 annual gift tax exclusion treatment to the contributions. You can "front-load" 529 plans by making five years' worth of annual exclusion gifts to a 529 plan. In 2015, you could

Your contributions to IRAs for family members are taxable gifts and should be coordinated with other gifts you make.

transfer $70,000 ($140,000 for a married couple) to a 529 plan without generating gift tax or using up any of your gift tax exemption.

- **Establishing and funding IRAs for the next generation.** Help your child or grandchild get an early start on saving for retirement. Consider making a gift of up to $5,500 to either a traditional or Roth IRA for your children or grandchildren who are not funding their own IRAs but have enough earned income to do so. Contributions to IRAs for your family members are taxable gifts and should be coordinated with other gifts you make. Also note, while IRA contributions for the 2015 tax year may be made until April 15, 2016, if you want to use your 2015 annual gift exclusion to make an IRA gift/contribution, the gift must be completed by December 31, 2015.

- **Understanding estate planning strategies that are under scrutiny.** If you have considered using certain estate planning strategies targeted by adverse legislation or regulations, discuss with your estate planning attorney the potential benefit of implementing the strategy sooner rather than later in case possible future changes will be made prospectively. GRATs, valuation discount planning, dynasty trusts and certain grantor trusts have all come under recent scrutiny.

- **End-of-year family meeting.** Family meetings can help you coordinate with respect to financial and other matters and are a valuable learning tool for children and descendants to understand the benefits and burdens of wealth. As the end of the year approaches, consider arranging a family meeting to discuss investments, planning, philanthropy and more. Your Financial Advisor can talk to you about best practices for organizing family meetings and having productive discussions with children about money and the stewardship of wealth.

- **UBS Attorney Network.** If you need assistance with your estate planning, your Financial Advisor can introduce you to a UBS network attorney. The UBS Attorney Network is a nationwide network of independent attorneys. There are more than 300 experienced attorneys specializing in trusts and estates in the network. You can talk to your Financial Advisor about an introduction to the UBS Attorney Network members in your area. Attorneys in the UBS Attorney Network are independent of, and unaffiliated with, UBS Financial Services Inc.

Charitable planning

Take note of limitations on the charitable income tax deduction:

Gifts to public charities. Contributions of cash can be deducted up to 50% of the taxpayer's adjusted gross income (AGI), and the full fair market value of appreciated property held for over one year can generally be deducted up to 30% of AGI.

Gifts to private foundations. Contributions of cash can be deducted up to 30% of AGI, and the full fair market value of publicly traded securities (if owned for over a year) can be deducted up to 20% of AGI. The deduction for gifts of other appreciated property may be limited to the taxpayer's cost basis.

- **Charitable income tax deduction.** In order to obtain an income tax charitable deduction for 2015, gifts must be made by December 31. If the gift consists of property that will require an appraisal (generally

required for gifts of property with a value in excess of $5,000, other than publicly traded securities), you should start the process as soon as possible. Also bear in mind that it may take several weeks for a transfer of stock via physical stock certificate or stock power to be completed.

It is important to obtain a proper receipt for any gifts in excess of $250 before filing your tax return, even if the donation was made to your own private foundation. Such a receipt must be in writing, state the amount donated, describe any non-cash donations, and indicate the value of any goods or services provided by the charity as consideration for the donation. A canceled check does not meet these requirements. Several court cases in recent years have denied taxpayers a charitable deduction for failing to strictly comply with these substantiation requirements.

- **IRA distributions donated to charity.** Since 2006, individuals over age 70½ have been permitted to exclude from income up to $100,000 of their required minimum distribution where the RMD is made payable to a qualified charity. This provision has been periodically extended by Congress, but as of this writing has not been extended for the 2015 tax year. Historically, private foundations and donor advised funds were not included in the definition of "qualified charity," while most public charities were considered qualified (changes to these limitations are possible). If you are interested in making a charitable gift and are over age 70½, note that it is not yet clear whether the exclusion from income provision will be reinstated.

- **Selecting assets to give to charity.** To avoid capital gains taxes and the 3.8% net investment income tax, giving appreciated property to charity (as opposed to selling the property, recognizing the gain, and contributing cash to charity) provides an income tax deduction equal to the fair market value of the property (subject to AGI limitations); the charity can then sell the property and pay no capital gain tax because it is a tax-exempt entity. It is critical that the appreciated property qualify as long-term capital gain property (held for more than one year); otherwise, the deduction will be limited to the donor's basis in the property. The deduction will also be limited to the donor's basis if real estate or nonmarketable appreciated property (such as shares in a privately held company) is contributed to a private foundation (as opposed to a public charity), even if the property qualifies for long-term capital gain treatment.

Transferring assets to a donor advised fund can allow the donor to take an immediate charitable income tax deduction and also afford him time to choose the ultimate charitable beneficiaries.

- **Donor advised funds.** Transferring assets to a donor advised fund can allow the donor to receive an immediate charitable income tax deduction (at the maximum amount allowed for gifts to public charities), while affording the donor time to decide on the ultimate charitable beneficiaries. If you would like to create a donor advised fund in 2015, you can establish one at UBS as late as December 31; however, additional time may be needed if you are planning on funding the account with anything other than cash.

- **Private foundations.** Managers of private foundations may wish to discuss the following ideas with their tax advisors to help optimize the efficiency of the foundation:
  - In order to minimize the 1% – 2% excise tax on net investment income, consider making grants of low-basis stock in lieu of selling the stock to raise cash for the grants, which could trigger gains.

UBS, through its relationship with Foundation Source, can facilitate the formation of a private foundation.

  - Consider offsetting gains with losses. Private foundations cannot carry forward capital losses. A foundation that has significant losses can sell securities that have appreciated, recognize the gain and buy the securities back in order to establish a higher basis in the assets. The wash sale rule does not apply here because the foundation is recognizing a gain (not triggering a loss).
  - Note that each year approximately 5% of the value of a foundation's net investment assets for the prior year must be distributed for charitable and administrative purposes. Accordingly, foundation managers should determine liquidity needs to meet the payout requirements.
  - Consider making a "conduit election," if applicable, so contributions to the foundation can be treated as though made to a public charity for income tax purposes. This can be useful if the foundation will distribute all of the contributions it receives early in the year following contribution, and the type or amount of the donation is such that the income tax deduction would be limited by the more restrictive private foundation rules.
  - Consider granting to a donor advised fund if you run out of time and cannot decide which charities should receive some or all of the 5% grant requirement.
  - Establishing a private foundation in 2015. UBS, through its relationship with Foundation Source, can facilitate the formation if you inform us of your intent before December 28, 2015. Contact your Financial Advisor for more information.

- **Charitable remainder trust planning.** If you have a concentrated position in one or more appreciated securities and are concerned about the tax bite associated with selling the appreciated securities in order to diversify, consider speaking with your attorney and tax advisor about establishing a charitable remainder trust (CRT) and contributing the appreciated securities to it. Because a CRT is a tax-exempt entity, the trustee can sell the assets without paying any capital gains tax. You have the right to receive a fixed amount from the trust each year – either an annuity or a unitrust payment – of at least 5% but not more than 50% of the trust assets (in any event, the present value of the remainder interest must equal at least 10% of the fair market value of contributed property at the time of contribution). Although the trust is tax-exempt, the payments you receive will be taxable to you upon receipt. Nonetheless, this can defer the associated capital gains (possibly indefinitely, depending on the trust's other income). At the end of the trust term (either your lifetime or a term of years not to exceed 20), the trust assets will pass to one or more charitable organizations designated by you. You will also be entitled to an income tax charitable deduction when you establish the trust for the present value of the charitable beneficiaries' remainder interest.

- **Charitable donations and the AMT.** Taxpayers who are subject to the AMT in certain years but not others should consider whether a charitable deduction would be more valuable this year or next. Charitable deductions are permitted under the AMT regime, but they are generally less valuable at the top AMT tax rate of 28% than at the top regular income tax rate of 39.6%. Therefore, taxpayers who are not consistently subject to the AMT might consider delaying their donations. While tax planning does not generally drive charitable giving, it may be appropriate to consult your tax advisors to determine the potential tax consequences of making a donation in January 2016 instead of December 2015.

- **Qualified conservation property.** A donor can take a charitable income tax deduction for the donation of "qualified conservation property" up to 30% of AGI, subject to a five-year carryforward for any excess deductions. Typically, this donation takes the form of an easement that restricts future development, but the easement can permit farming, timber, harvesting or other uses of a rural nature to continue. The restrictions must generally be perpetual. An enhanced deduction up to 50% of AGI (100% of AGI for farmers and ranchers), with a carryforward period of 15 years, expired on December 31, 2014. It is possible that the enhanced deduction will be resurrected and made retroactive to all of 2015.

Retirement planning

- **Maximize contributions to retirement accounts.** Make 2015 contributions to Roth or traditional IRAs by April 15, 2016. The following chart summarizes the 2015 annual contribution limits to IRAs and retirement plans:

Plan	Under age 50	Age 50 or older
IRA (traditional or Roth)[1]	$5,500	$6,500
401(k), 403(b), 457(b), SAR-SEP[2]	$18,000	$24,000[3]
SIMPLE[2]	$12,500	$15,500

[1]The maximum contribution or deductible contribution may be reduced depending on your modified adjusted gross income.
[2]Salary deferral contributions.
[3]For 457(b) plans, catch-up contributions may be made for governmental 457(b) plans only.

- **RMDs.** For individuals over age 70½, required minimum distributions must generally be taken from IRAs, profit sharing, 401(k), 403(b), and 457(b) plans, as well as other retirement plans, by December 31. There are no required minimum distributions for Roth IRAs prior to the original accountholder's death.
  - *Exceptions*: The first RMD can be delayed until April 1 of the year following the year in which the taxpayer turns age 70½. Additionally, RMDs for employer-sponsored qualified retirement plans may be able to be delayed if the taxpayer is still employed and the employer's plan permits RMDs to begin at the later of age 70½ or retirement.
  - *Aggregation*: If you have more than one IRA (of which you were the original account owner), you can take the RMDs for multiple IRAs from one account. The same holds true for 403(b) plans, but not for other types of employer-sponsored retirement plans like 401(k) and 457(b) plans. Also, if you inherited an IRA as a beneficiary, you have separate RMD requirements for the inherited IRA and cannot aggregate those distributions with your own IRA. Inherited IRAs require that the RMD for the year of death be distributed to you if the decedent did not take it, and subsequent years have a separate RMD calculation from your own IRAs.

If you are the original account owner of more than one IRA, you can take RMDs for multiple IRAs from one account.

- **Charitable distributions from IRAs.** As noted on page 10, Congress has not yet extended the law enabling individuals over age 70½ to exclude from income up to $100,000 of their required minimum distribution where the RMD is made payable to a qualified charity.

- **Check beneficiary designations.** Significant life events such as marriage, divorce and births can have unanticipated impacts on beneficiary designations. Consider whether any changed circumstances will affect the disposition of your retirement assets. For example: under federal law, a

surviving spouse is the default beneficiary for a qualified retirement plan. Moreover, a spouse's consent is required if anyone else is named as the beneficiary. Additionally, if you have not designated beneficiaries, then the assets will pass according to the retirement plan default. Review your designations on a regular basis.

- **After-tax 401(k) contributions.** The total of all contributions to a 401(k) cannot exceed $53,000 in 2015, which means that an employee may be able to make up to $35,000 in after-tax contributions before December 31 (in addition to $18,000 in pre-tax contributions). Moreover, guidance from the IRS last year indicated that an employee may be able to later roll any after-tax amounts into a Roth IRA, with the remainder to a traditional IRA. This could result in a significant amount of funds going to the Roth IRA.

- **Roth conversions.** For a Roth conversion (as discussed previously), pre-tax amounts that are converted, and the earnings on those amounts, are included as part of taxable income in the year the conversion was completed. Therefore, if you are considering a Roth conversion, think about whether it may make more sense to implement in 2015 versus 2016. This decision should be made in consultation with your tax advisor, based on your specific investment history, other tax attributes, and more (remember that you have until October 15 of the year following the conversion to reverse the conversion if circumstances change).

- **Annual reminders—the end of the year is a great time to review various aspects of your financial and estate plan.**
  - Request a free credit report. The Fair Credit Reporting Act (FCRA) requires that each of the nationwide credit reporting companies provide you with a free copy of your credit report once every 12 months. This can be done through *www.annualcreditreport.com* at no charge (be wary of other websites that offer similar "free" reports as they may come with strings attached). While you may request a copy of your credit report from all three reporting companies at the same time, you may also choose to request the report at different times during the year and request a different company's report each time. For instance, you may choose to order your free credit report from Experian in December, then from Equifax in April, and then from TransUnion in August so you can keep an eye open for issues year round. For more information, see the Federal Trade Commission website at *www.consumer.ftc.gov/articles/0155-free-credit-reports*.
  - Review your 2015 spending and create a 2016 budget. This should include reviewing any large planned asset sales or purchases so that you can plan for where the proceeds will be deployed or how the expenses will be covered. If liquid investment assets need to be sold to cover a purchase, this will give you and your Financial Advisor the opportunity to discuss the timing of these sales and whether to complete the sales before or after the end of the year to address income tax ramifications and/or planning opportunities. Or, if debt is going to be used, you can review loan options and ensure your credit report is accurate (see above).
  - Review your outstanding debt (including interest rates and terms) to determine if there is an opportunity to refinance at better terms or whether to consider converting a variable rate loan to a fixed rate loan.

Upon your request, each of the nationwide credit reporting companies must provide you with a free copy of your credit report once every 12 months.

Store your estate planning documents somewhere safe and easily accessible by the individuals you have named to handle your affairs.

- Update your financial statement/balance sheet. Having a complete listing of your assets and liabilities is becoming more important as we move away from receiving paper statements and instead rely on information provided electronically. There may no longer be a file cabinet full of paper statements that people can reference to determine what you own and what you owe in the event that you are not able to manage your own financial affairs.
- Create or update a list of all of your electronic user names and passwords. Similar to the prior bullet point, it is important for those who step in to manage your affairs to be able to access your online bank and brokerage accounts, credit card accounts, social media accounts, frequent flyer and other loyalty programs, etc., and remember to properly safeguard this important information.
- Review your insurance portfolio with a qualified professional to determine whether or not your current life, long-term care and liability insurance continue to efficiently meet your coverage needs.
- Take a look at your Will and/or revocable living trust to ensure that you remain comfortable with bequests and dispositions, executors, trustees and guardians.
- Review agents named under financial and medical powers of attorney to ensure they are still appropriate. Review living wills to ensure you are comfortable with the healthcare and end-of-life-related instructions therein.
- Revisit your beneficiary designations for your insurance policies, as well as your retirement plans, to ensure the assets will pass according to your wishes. Likewise, evaluate with your attorney the titling of your other assets to ensure they too are distributed according to your goals and objectives (and are coordinated with your estate plan). For example, titling assets as "tenants in common" or in the name of a revocable trust rather than as "joint tenants with right of survivorship" can help to ensure assets pass according to the terms of a Will and trust rather than by operation of the titling itself.
- Communicate the location and intention of your estate planning documents with the appropriate individuals. Documents should be placed somewhere safe and easily accessible by the individuals you have named to handle your affairs (e.g., executor, trustee and agents under financial or medical powers of attorney).

2015 year-end planning checklist

High income earners

- ☐ Review your deductions from a timing perspective
- ☐ Analyze mutual fund capital gain distribution estimates
- ☐ Monitor AMT liability
- ☐ Assess a Roth IRA conversion
- ☐ Review liquidity available for estimated tax payments, if required

Philanthropists

- ☐ Review optimal timing of charitable gifts and appropriate action to ensure desired deduction year
- ☐ Select optimal assets to give to charity
- ☐ Consider charitable vehicles such as donor advised funds or private foundations
- ☐ Consider tax efficient strategies for private foundation management
- ☐ Monitor the situation with regard to IRA distributions donated to charity
- ☐ Consider the impact of AMT on charitable donations

Investors

- ☐ Net short- and long-term gains and losses
- ☐ Time loss recognition, remaining aware of the wash sale rule
- ☐ Analyze concentrated stock positions to determine if diversification or hedging is desired
- ☐ Review portfolio for current risk level and circumstances
- ☐ Watch for any corporate inversions that may impact you

Business owners, employees and retirees

- ☐ Maximize contributions to retirement plans
- ☐ Withdraw RMDs, monitoring whether charitable distributions from IRAs become possible
- ☐ Consider life insurance to address potential estate taxes due at death

Wealth transferors

- ☐ Consider using $5.43 million gift tax exemption
- ☐ Make annual exclusion ($14,000) gifts, potentially to 529 plans
- ☐ Consider GRATS, family loans, trusts and other opportune estate planning strategies
- ☐ Explore IRAs for the next generation, where applicable
- ☐ Consider whether year-end distributions from non-grantor trusts for tax planning purposes would be appropriate

Everyone

- ☐ Review various types of insurance
- ☐ Go over estate planning documents, including powers of attorney and living wills
- ☐ Confirm beneficiary designations and asset titling
- ☐ Communicate location of important documents to appropriate individuals
- ☐ Discuss state tax planning with your tax advisors

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