

# 2014 Year-End Tax Planning Checklist

Planning strategies to discuss with your Financial Advisor or Private Wealth Advisor and tax professional before year-end

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## GENERAL TAX ISSUES

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- ☐ Find out if you have any loss carryovers from prior years to be applied against capital gains. If your current year's capital losses exceed your capital gains, you have a net capital loss. You can use up to \$3,000 of that loss (\$1,500 if you are married filing separately) to offset other taxable income, such as salaries and wages, interest and dividends. If the capital loss is more than \$3,000, you can carry over the excess and apply it against capital gains the next year. You can continue doing this year after year until the capital loss is completely used up.
- ☐ Request a tax harvest. Review all sources of taxable gains and income (business, outside sales, private partnerships) and work with your Financial Advisor or Private Wealth Advisor and tax professional to seek unrealized losses to harvest against these gains.
- ☐ When selling securities, ask your Financial Advisor or Private Wealth Advisor how to comply with wash sale rules that govern the purchase and sale of similar investments within a 30-day period.
- ☐ Have your tax advisor estimate your adjusted gross income and tax rate now to determine if you have any Alternative Minimum Tax (AMT) liability for 2014. Work with your tax advisor on the timing of payments (i.e., state and local income taxes) in an attempt to mitigate your AMT liability. This may include accelerating or deferring income.
- ☐ Speak to your tax advisor about the two tax credits — American Opportunity Credit and Lifetime Learning Credit — to help fund higher education expenses.

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## RETIREMENT ACCOUNTS

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- ☐ Consider funding your IRA and company retirement plan accounts as soon as possible. You generally have until April 15, 2015 to fund your IRA for 2014. You should consult your tax advisor to determine the deadline for contributing to your company retirement plan.
- ☐ Explore the benefits of a Roth IRA. A conversion of a traditional IRA to a Roth IRA can provide tax-deferred growth potential, as well as tax-free income in retirement. To be treated as a Roth conversion for 2014, the funds being converted must be distributed or transferred from the non-Roth retirement account no later than December 31, 2014.

## RETIREMENT ACCOUNTS CONTINUED...

- ☐ Check with your employer if your company's retirement plan contains a designated Roth account. As a result of the Small Business Jobs Act of 2010 and the American Taxpayer Relief Act of 2012, you might be able to complete a Roth conversion within your employer-sponsored plan.
- ☐ Review your retirement account holdings to ensure they are optimized for tax efficiency. While at certain times municipal bonds have offered compelling yields even in a retirement account, this may no longer be the case. You might consider alternatives such as higher yielding taxable fixed income products.
- ☐ If you are age 70½ or older and have a traditional, Simplified Employee Pension (SEP), SAR-SEP or SIMPLE IRA, remember to take your required minimum distribution (RMD) for 2014 by December 31, 2014, if required. Certain beneficiaries of deceased IRA owners may need to take Required Death Distributions (RDDs) as well. Although Roth IRA owners are not subject to the RMD rules at age 70½, certain Roth beneficiaries may need to fulfill their RDD.
- ☐ If you own a business that has a calendar tax year, under most circumstances you only have until December 31, 2014 to adopt a qualified plan in order to deduct contributions for 2014. However, if you miss this deadline, a SEP plan can be established and funded by the due date for filing the plan sponsor's 2014 tax return (including extensions). This deadline could be up to six months after the original due date of your tax return.
- ☐ Diversifying your retirement portfolio with a variable annuity might help complement your existing investment strategy by providing a number of tax-advantaged benefits—including opportunities to reduce your current tax liability, increase retirement savings and possibly supplement Social Security and/or pension benefits.

## GIFTING PLANS

- ☐ Complete any gift transfers to individuals or use the annual exclusion to make gifts to an Irrevocable Life Insurance Trust by year-end. Doing so will help you reduce the value of your estate and potentially reduce future estate taxes. You can transfer up to \$14,000 per recipient in 2014 without incurring any federal gift tax. Spouses together may gift up to \$28,000 per recipient.
- ☐ Consider gifting through a 529 plan. Contributions to a 529 plan can help reduce income and future estate taxes. A special provision in the tax code allows you to take up to five years of gift tax exclusions in a single year, allowing you to make an accelerated gift through a 529 plan of up to \$70,000 (\$140,000 for couples) per beneficiary—which effectively removes the assets from your taxable estate yet does not force you to give up control.<sup>1</sup>
- ☐ To further transfer wealth out of your estate, you might also consider unlimited tax-free gifts in the form of payments for another individual's tuition expenses and/or unreimbursed medical expenses made directly to the educational institution or medical provider.
- ☐ Consider making gifts in excess of the annual exclusion using your lifetime federal gift tax exclusion of \$5.34 million in 2014 (\$10.68 million for married couples). This is the largest gift tax exemption—and opportunity—in history. To take advantage of the opportunity, you might consider outright gifts or gifts in a trust, including trusts for your grandchildren's education. Gifts can be made with real estate, stock or other assets. Any gifts above the annual gift tax exclusion of \$14,000 per recipient will require filing a gift tax return even if no tax is due. Before making such a gift, consult with your Financial Advisor or Private Wealth Advisor and personal legal and tax advisors for assistance in determining whether such a gift is feasible given your level of assets and projected income and expenses.
- ☐ Gifting appreciated investments to charity is a way of reducing your tax burden. As long as the investment has been owned for a least one year and has appreciated in value, the owner may deduct the market value without having to pay tax on the appreciation, subject to normal AGI and itemized deduction limitations.
- ☐ A donor-advised fund (DAF), such as Morgan Stanley Global Impact Funding Trust (GIFT), is a tax-efficient way of donating stock, mutual funds or other appreciated assets. A tax deduction can be claimed for the market value of the donated assets subject to normal AGI and itemized deduction limitations. A DAF can be funded in high-income years, when the deduction will have the most impact. Distributions can be made in later years without consideration of the tax consequences.
- ☐ Remember that only donations to qualified charitable organizations are deductible. If you're uncertain of an organization's charitable status, you should consult with your personal tax and legal advisors.

## OTHER ISSUES

- ☐ Set aside the maximum amount allowed for next year in your employer's health care Flexible Spending Account.
- ☐ Medicare: Annual Open Enrollment period starts mid-October and ends in early December. You may find yourself responsible for determining the best coverage options for yourself and loved ones. Getting this election correct is very important as a poor choice can impact out-of-pocket expenses. For help on these and other health care and long-term care issues (regardless of your age), talk to your Financial Advisor or Private Wealth Advisor who can provide access to enrollment consultation and help you incorporate health care costs into the rest of your financial plan.
- ☐ Diversification is important. When dealing with large concentrated stock or highly appreciated positions, be sure to weigh the risks of holding the large position versus the benefits of diversification. If gradual diversification is needed, be sure to trim before year-end to spread the capital gain impact over multiple years.
- ☐ Ask your Financial Advisor or Private Wealth Advisor for help rebalancing your portfolio to remain in line with your goals, time horizon and risk tolerance. Discuss any new opportunities for investing that might be appropriate for you.
- ☐ Consider using a securities based loan or line of credit to finance your tax obligation. Using cash or liquidating assets could disrupt your investment strategy and trigger capital gains taxes or transaction fees. A securities based loan or line of credit can generally be established in just a few days, can be easy to set up, and offers competitive rates with typically no fees.<sup>2</sup> Speak to your Financial Advisor or Private Wealth Advisor about keeping your investment portfolio intact and paying your taxes with a securities based loan or line of credit.
- ☐ Same-sex couples should consult with their tax and legal advisor about recent changes in state and federal laws that could result in estate and gift tax planning advantages.
- ☐ Have a conversation with your Financial Advisor or Private Wealth Advisor about the active tax management strategy available within Select UMA (Unified Managed Account), which may be appropriate for your taxable account.
- ☐ Have a conversation with your Financial Advisor or Private Wealth Advisor about worthless securities. Securities that are classified as capital assets may be treated as though they were sold on the last day of the tax year if they become worthless during that tax year. Tax losses may only be claimed in the year the security became worthless. The general refund limitation for carrybacks is three years although that may extend to seven years, depending on the circumstance.

<sup>1</sup>No further annual exclusion gifts and/or generation-skipping transfers to the same beneficiary by the donor may be made over the same five-year period, and the gift must be reported as a series of five equal annual gifts. If the donor dies within the five-year period, a portion of the gifted amount will be included in the donor's estate for estate tax purposes. If you revoke the account, its value comes back into your taxable estate.

<sup>2</sup>In certain instances clients may be charged legal or documentation fees by third parties. Clients may also be charged a fee for the issuance of a letter of credit.

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Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

529 college savings plan funds not used for qualified educational expenses are subject to applicable taxes and penalties. Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's home-state 529 college savings plan.

**Variable annuities are sold by prospectus. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments are**

**available from your Financial Advisor. Please read the prospectus carefully before investing.**

Variable annuities are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees are based on the claims-paying ability of the issuing insurance company. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty.

Insurance products are offered in conjunction with Morgan Stanley Wealth Management's licensed insurance agency affiliates.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

Borrowing against securities may not be suitable for everyone. You should be aware that securities based loans involve a high degree of risk and that market conditions can magnify any potential for loss. Most importantly, you need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required collateral maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association, or Morgan Stanley Smith Barney LLC (collectively referred to as "Morgan Stanley") reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities based loan that is identified as a committed facility; (5) Morgan Stanley reserves the right to increase your collateral maintenance requirements at any time without notice; and (6) Morgan Stanley reserves the right to call your securities based loan at any time and for any reason. **The proceeds from certain securities based loan products may not be used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); repay margin debt that was used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); and cannot be deposited into a Morgan Stanley Smith Barney LLC or other brokerage account.** To be eligible for a securities based loan, a client must have a brokerage account at Morgan Stanley Smith Barney LLC that contains eligible securities, which shall serve as collateral for the securities based loan.

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