Financial Considerations for 2015

IS IT TIME TO MAKE A FEW ALTERATIONS FOR THE NEAR FUTURE?

2015 is less than three months away.

Fall is the time when investors look for ways to lower their taxes and make some financial changes. This is an ideal time to schedule a meeting with a financial, tax or estate planning professional.

How do economists see next year unfolding?

Morningstar sees 2.0-2.5% GDP for the U.S. for 2015, with housing, export growth, wage growth, very low interest rates and continuing vitality of energy-dependent industries as key support factors. It sees the jobless rate in a 5.4-5.7% range and annualized inflation running between 1.8-2.0%. Fitch is far more optimistic, envisioning U.S. GDP at 3.1% for 2015 compared to 1.3% for the eurozone and Japan. (Fitch projects China's economy slowing to 6.8% growth next year as India's GDP improves dramatically to 6.5%.)[1,2]

The Wall Street Journal's Economic Forecasting Survey projects America's GDP at 2.8% for both 2015 and 2016 and sees slightly higher inflation for 2015 than Morningstar (with the CPI rising at an annualized 2.0-2.2%). The Journal has the jobless rate at 5.9% by the end of this year and at 5.5% by December 2015.[3]

The WSJ numbers roughly correspond to the Federal Reserve's outlook: the Fed sees 2.6-3.0% growth and 5.4-5.6% unemployment next year. A National Association for Business Economics (NABE) poll projects 2015 GDP of 2.9% with the jobless rate at 5.6% by next December.[4]

What might happen with interest rates?

In the Journal's consensus forecast, the federal funds rate will hit 0.47% by June 2015 and 1.17% by December 2015. NABE's forecast merely projects it at 0.845% as next year concludes. That contrasts with Fed officials, who see it in the range of 1.25-1.50% at the end of 2015.[3,4]

Speaking of interest rates, here is the WSJ consensus projection for the 10-year Treasury yield: 3.24% by next June, then 3.58% by the end of 2015. The latest WSJ survey also sees U.S. home prices rising 3.3% for 2015 and NYMEX crude at $93.67 a barrel by the end of next year.[3]

Can you put a little more into your IRA or workplace retirement plan?

You may put up to $5,500 into a traditional or Roth IRA for 2014 and up to $6,500 if you are 50 or older this year, assuming your income levels allow you to do so. (Or you can spread that maximum contribution across more than one IRA.) Traditional IRA contributions are tax-deductible to varying degree. The contribution limit for participants in 401(k), 403(b) and most 457 plans is $17,500 for 2014, with a $5,500 catch-up contribution allowed for those 50 and older. (The IRS usually sets next year's contribution levels for these plans in late October.)[5]

Should you go Roth in 2015?

If you have a long time horizon to let your IRA grow, have the funds to pay the tax on the conversion, and want your heirs to inherit tax-free distributions from your IRA, it may be worth it.

Are you thinking about an IRA rollover?

You should know about IRS Notice 2014-54, which lets taxpayers make "split" IRA rollovers of employer-sponsored retirement plan assets under more favorable tax conditions. If you have a workplace retirement account with a mix of pre-tax and after-tax dollars in it, you can now roll the pre-tax funds into a traditional IRA and the after-tax funds into a Roth IRA and have it all count as one distribution rather than two. Also, the IRS is dropping the pro rata tax treatment of such rollover amounts. (Under the old rules, if you were in a qualified retirement plan and rolled $80,000 in pre-tax dollars into a traditional IRA and $20,000 in after-tax dollars into a Roth IRA, 80% of the dollars going into the Roth would be taxed under the pro-rated formula.) The tax liability that previously went with such "split" distributions has been eliminated. The new rules on this take effect January 1, but IRS guidance indicates that taxpayers may apply the rules to rollovers made as early as September 18, 2014.[6]

Can you harvest portfolio losses before 2015?

Through tax loss harvesting – dumping the losers in your portfolio – you can claim losses equaling any capital gains recognized in a tax year, and you can claim up to $3,000 in additional losses beyond that, which can offset dividend, interest and wage income. If your losses exceed that limit, they can be carried over into future years. It is a good idea to do this before December, as that will give you the necessary 30 days to repurchase any shares should you wish.[7]

Should you wait on a major financial move until 2015?

Is there a chance that your 2014 taxable income could jump as a consequence of exercising a stock option, receiving a bonus at work, or accepting a lump sum payout? Are you thinking about buying new trucks or cars for your company, or a buying a building? The same caution applies to capital investments.

Look at tax efficiency in your portfolio.

You may want to put income-producing investments inside an IRA, for example, and direct investments with lesser tax implications into brokerage accounts.

Finally, do you need to change your withholding status?

If major change has come to your personal or financial life, it might be time. If you have married or divorced, if a family member has passed away, if you are self-employed now or have landed a much higher-salaried job, or if you either pay a lot of tax or get unusually large IRS or state refunds, review your current withholding with your tax preparer.

Citations.

1 - news.morningstar.com/articlenet/article.aspx?id=666682&SR=Yahoo [9/29/14]
2 - 247wallst.com/economy/2014/09/30/downside-risks-to-global-gdp-growth/ [9/30/14]
3 - projects.wsj.com/econforecast [9/30/14]
4 - blogs.wsj.com/economics/2014/09/29/business-economists-see-lower-interest-rates-than-the-fed-sees-in-late-2015/ [9/29/14]
5 - shrm.org/hrdisciplines/benefits/articles/pages/2014-irs-401k-contribution-limits.aspx [11/1/13]
6 - lifehealthpro.com/2014/09/30/irs-blesses-split-401k-rollovers [9/30/14]
7 - dailyfinance.com/2013/09/09/tax-loss-selling-dont-wait-december-dump-losers/ [9/9/13]

Executive Team: Jane Sinclair, President, and Mike Steranka CEO

rps

RETIREMENT PLANNING
Services Incorporated

8530 Veterans Highway, 2nd Floor, Millersville, MD 21108
Telephone: 443-308-5200 **Fax:** 410-451-2864
www.RPS123.com | info@RPS123.com