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September 2015

Tax due dates

● **September 15** – Third quarter installment of 2015 individual estimated income tax is due.

● **September 15** – Filing deadline for 2014 tax returns for calendar-year corporations that

received an automatic extension of the March 16 filing deadline.

● **September 15** – Filing deadline for 2014 partnership tax returns that received an extension of the April 15 filing deadline.

● **October 1** – Generally, the deadline for businesses to adopt a SIMPLE retirement plan for 2015.

● **October 15** – Deadline for filing 2014 individual tax returns on extension.

Roth re-do deadline approaching

It turns out you can go back after all – at least when it comes to last year's decision to convert your traditional IRA to a Roth. The question is, do you want to?

You might, if your circumstances have changed. For example, say the value of the assets in your new Roth account is currently less than when you made the conversion. Changing your mind could save tax dollars.

Recharacterizing your Roth conversion lets you go back in time as if the conversion never happened. You'll have to act soon, though, because the window for undoing a 2014 Roth conversion closes October 15, 2015. Before that date, you have the opportunity to undo all or part of last year's conversion.

After October 15, you can change your mind once more and put the money back in a Roth. That might be a good choice when you're recharacterizing because of a reduction in the value of the account. Just remember you'll have to wait at least 30 days to convert again.

Give us a call for information on Roth recharacterization rules. We'll help you figure out if going back is a good idea.

Finish the year with effective tax planning

The fourth quarter is often make-or-break time in sports. Likewise, tax-cutting steps you take in the last three months of the year can transform a financial plan into a bona fide winner.

Late-year tax planning is often a matter of reviewing your inflows and outflows. For instance, income from capital gains can be subject to both capital

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gains tax and the 3.8% Medicare surtax. To offset capital gains, you might sell investments that have lost value since you purchased them. Net capital losses can be used to reduce ordinary income by up to \$3,000. A tax-saving examination of your portfolio is also a good time to rebalance your holdings between asset classes.

Interest and dividend income can be subject to the 3.8% Medicare surtax too. Plan for this by considering investments in municipal bonds that pay tax-free interest. If you are contemplating a mutual fund investment between now and the end of the year, check the fund's expected dividend date. Purchasing a mutual fund now could bring an unwanted taxable dividend before December 31.

On the outflow side, look for opportunities to maximize deductions.

Accelerate your charitable donations and consider donating appreciated securities you have owned for more than one year. This strategy can offer double value – you get the benefit of a deduction and you don't have to pay tax on the gain.

Take advantage of increased retirement plan contribution limits for 2015.

This year you can contribute as much as \$5,500 to a Roth or traditional IRA (\$6,500 if you're age 50 or over). The limit for 401(k) plans is \$18,000, plus an additional \$6,000 if you're 50 or older. While checking on the status of your retirement plan contributions, review your list of beneficiaries too.

Another important fourth quarter exercise is an analysis of your income tax withholdings and estimated payments. These can be affected by personal events such as a change in marital status, the sale of property, or a new job.

Effective tax planning is a matter of finishing well. Contact our office to discuss steps you can take to make the fourth quarter a strong one for you.

Understand mutual fund expenses

Are you familiar with the charges imposed by the mutual funds you own? Since fund expenses affect your investment return, understanding the costs is an important step in making sound investment decisions. Here are some common charges you'll want to know about before you invest.

- **Load.** A load is a sales charge imposed by the fund. You might think of it as similar to the fee you pay a broker to purchase a stock. Mutual funds fit in two broad categories: load and no-load.

Load funds include front-end, back-end, and level-load. A front-end load, as the name implies, is charged when you make your initial investment. A back-end load is charged when you sell your investment before a specified period of time has passed. A level-load charges you an ongoing fee (for instance, 1% per year) as long as you own the shares. A no-load fund has no sales charge. Keep in mind that no-load is not the same as no-fee. No-load funds can still charge purchase fees, redemption fees, exchange fees, and account fees. Look for information on fees and charges in a fee table located near the front of a fund's prospectus under the heading "Shareholder Fees."

- **Expense ratio.** The expense ratio tells you the cost of operating and managing the fund. These costs include marketing fees (sometimes called 12b-1 fees), management fees, administrative fees, operating costs, and other asset-based costs incurred by the mutual fund. A high expense ratio can hurt your overall return.
- **Turnover and taxes.** A fund's turnover ratio indicates how often the fund buys and sells stocks. A high turnover ratio reflects active trading. Because funds pass capital gains through to shareholders, active trading could result in taxable income for you. A low turnover ratio indicates a "buy and hold" strategy that can postpone the tax bite.

If you have questions about mutual fund terminology, give us a call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

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