John Hancock INSURANCE

Advanced Markets

YEAR-END PLANNING STRATEGIES 2015

Planning Strategies For the End of 2015

Whether you desire to minimize estate taxes, income taxes or transfer more wealth to heirs, it is not too late to take advantage of many planning opportunities before the end of the year.

Plan for the new year by:

✔ Setting up a gifting program,

✔ Leaving a legacy,

✔ Exploring your charitable giving options, OR

✔ Maximizing 401(k) and IRA contributions

The Power of Gifting

The ability to make gifts is an important opportunity for any family's estate plan. For some families, making gifts to children or grandchildren is motivated by the pure desire to benefit loved ones, regardless of the donor's financial circumstances. For families that have more significant wealth, making gifts to loved ones not only benefits the recipient(s) but can also have an important role in helping to **reduce a donor's gross estate** and **protect his/her wealth** from various transfer taxes.

As the end of the year draws near, consider the following available gifting opportunities:

- In 2015, individuals may gift up to $14,000 per person without incurring any gift tax. This is known as an **annual exclusion gift**. The gift can be made to your children, grandchildren, parents, nieces, nephews, or to whomever you want to make a gift, with no limit to how many gifts can be made. Additionally, married couples may gift up to $28,000 per individual by using each of their annual exclusion gifts or agreeing to split gifts between the two of them.
- Individuals interested in creating or contributing to **529 accounts** for their children or grandchildren must make the contribution before year-end for the gift to be considered a 2015 gift (treated as an annual exclusion gift). Gifts to 529 accounts can also be front-loaded with five years worth of annual exclusion gifts, allowing a donor to make a significant gift without tapping into his/her lifetime exemption.
- Individuals can also consider paying for an individual's qualified **medical and/or education expenses**, which are not considered taxable gifts and do not count towards the donor's annual or lifetime gifting limits. To qualify for this favorable tax treatment, gifts must be made directly to the institution and not to the individual directly.
- For individuals who are married to someone who is not a U.S. citizen, gifts or **transfers of property** up to $147,000 can be made in 2015 without tapping into the donor's lifetime exemption amount.

- In addition to annual exclusion gifts, individuals also have the ability to gift cash and other assets to whomever they like tax-free using the applicable **exemption for lifetime gifts**. The lifetime exemption amount is indexed for inflation and is currently set at $5,430,000 for 2015 (and is expected to be around $5,450,000 for 2016). Lifetime gifting can be an effective strategy for the tax-efficient transfer of wealth because gifts remove future appreciation on transferred assets from an individual's estate.
- For individuals who may have made substantial gifts in previous years, the indexing of the **lifetime exemption** amount provides additional gifting resources that were previously unavailable under prior law. For example, if you made a large gift in 2013 when the lifetime exemption was $5,250,000, the inflation adjustment of the exemption amount in 2014 and 2015 would give you an additional $180,000 of gifting available ($90,000 in 2014 and 2015). Since the enactment of the current law, the lifetime exemption amounts for each year have increased as follows:

YEAR	EXEMPTION	INCREASE FROM PRIOR YEAR
2011	$5,000,000	—
2012	$5,120,000	$120,000
2013	$5,250,000	$130,000
2014	$5,340,000	$90,000
2015	$5,430,000	$90,000

Using an Irrevocable Trust to Make Gifts

There are many ways to set up a gifting program.[1] You can make outright gifts to the recipient(s) using the annual exclusion or the gift tax exemption, or you can make gifts to an irrevocable trust and have the trustee use the gifts to purchase investments or a life insurance policy for the benefit of your heirs. An Irrevocable Life Insurance Trust (ILIT) can be a good way to leverage gifts and provide for your family members, including your children and grandchildren (and also your spouse, if the trust document has spousal access provisions).[2] If the ILIT is properly drafted and administered, the trust can receive the life insurance death benefit free of income and estate taxes.

IMPORTANT CONSIDERATIONS:

✔ Gifts are considered to be made on the date the donee receives the gift. In the case of checks, a gift recipient must cash the check *before the end of the year* for the gift to qualify as a 2015 gift.

✔ Given that income-tax rates for the highest income earners are comparable (or more, at times) than the maximum gift and estate tax rate of 40%, it is important to consider the basis of an asset prior to making the gift. Whereas assets held until death are given a step-up in basis (up to fair market value), assets transferred by gift do not receive a step-up in basis, but "carry over" the basis of the asset to the gift recipient. For this reason, gifts of cash or assets with a higher basis may make more financial sense than gifting low-basis assets.

Charitable Gifts

You may also want to consider the advantage of making charitable gifts before the end of the tax year. Gifts made to charity enjoy several benefits including: helping out your favorite causes; receiving a current income-tax deduction; and reducing your overall estate tax exposure (where applicable). Charitable gifts can be made with a variety of assets, such as cash, stock, real estate, or life insurance, and the gifts can be made directly to a charity or through a vehicle like a charitable trust or gift annuity. When making gifts to charity, keep in mind that:

- ✔ **There are limits** on the amount of income tax deduction available, depending on your adjusted gross income (AGI) and the type of asset given to charity.
- ✔ **Gifts to charity must be made on or before December 31** (and actually received by the charity) in order for you to reap the tax benefits on your 2015 tax return.
- ✔ **The tax benefits** of gifting to charity can be enhanced by donating appreciated assets, rather than selling an appreciated asset, recognizing gain, and then gifting cash to the charity.

- **Gifts to charity must be well-documented** and proper receipts must be received in order to get an income tax deduction. For example, gifts of over $250 must receive a "contemporaneous written acknowledgment" of the contribution from the charity in order to receive an income tax deduction. To be contemporaneous, the written acknowledgment must generally be obtained by the donor no later than the date the donor files his/her tax return. The written acknowledgment must state whether the charity provided any goods or services in consideration for the charitable contribution. It is up to you, the donor, to get this written acknowledgment and the charity is not required to report this information to the IRS on your behalf.
- **Gifts** to charity of property that exceed $5,000 in value, require a qualified appraisal prepared by a qualified appraiser. This appraisal must be obtained and submitted to the IRS to receive an income-tax deduction.

As you prepare to file your 2015 tax return, here are some items to be aware of:

UNEARNED INCOME MEDICARE CONTRIBUTION

A "net investment income tax" is imposed on taxpayers with investment income (i.e., unearned income) whose modified adjusted gross income exceeds certain IRS set thresholds. Commonly referred to as a Medicare contribution or surcharge, this tax is in addition to taxes imposed on a taxpayer's earned income to fund social security and certain Medicare benefits.

In the case of an individual, this net investment income tax is equal to 3.8% times the lesser of:

- The taxpayer's net investment income, **OR**
- The excess of the taxpayer's modified adjusted gross income (MAGI) over the threshold amount (e.g., $200,000 threshold for individuals, $250,000 threshold for married couples filing joint returns).

This tax also applies to most trusts and estates, and it is on the lesser of:

- The trust's or estate's undistributed net investment income, **OR**
- The excess of AGI over the dollar amount at which the highest income tax bracket applicable to a trust or an estate begins ($12,300 for 2015)

Other Year-End Tax Planning Items

In addition to making annual exclusion gifts and gifts to trusts, here are some other possibilities to consider:

CONTRIBUTIONS TO 401(k) PLANS (INCLUDING ROTH 401(k) PLANS)	The maximum contribution for 2015 is $18,000 with a $6,000 catch-up amount for people over age 50.
CONTRIBUTIONS TO TRADITIONAL AND ROTH INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)	The maximum contribution for 2015 is $5,500, with a $1,000 catch-up amount for people over age 50. Note: contributions to an IRA for a given year generally can be made up until the filing deadline for the individual's tax return. For a 2015 contribution, this means that a taxpayer generally has until April 15, 2016 to make the contribution.
STOCK SALES	To take advantage of capital gains or losses for 2015, shares must be sold by December 31, 2015. In 2015, capital gains rates can vary from 15% to 20% depending on your income tax bracket. In addition, high income earners may have their investment income subject to the 3.8% tax discussed above.
INCOME TAX RATE HIKES	Since life insurance proceeds payable at death are not subject to income taxes, the value of the death benefit will increase as tax rates rise. Cash values of a permanent life insurance policy may also grow tax deferred and be distributed on a tax-favored basis.
FAMILY LIMITED PARTNERSHIPS (FLPS) AND LIMITED LIABILITY COMPANIES (LLCS)	Consider making discounted gifts of FLP and LLC interests to trusts or beneficiaries in 2015, especially given possible legislative changes affecting valuation discounts.
GRANTOR RETAINED ANNUITY TRUSTS AND DYNASTY TRUST PLANNING	Consider GRATs and Dynasty Trust Planning. These two items appear in various proposals to limit the duration (in the case of GRATs, past proposals have tried to limit them to 10 years. In the case of Dynasty Trust Planning, proposals wanted to limit them 90 years).

For more information on these planning strategies, contact your local John Hancock representative.

1. For a gift to a trust to qualify for the annual exclusion, it must be a "present interest" gift. For the gifts to be considered present interest gifts, the trust beneficiaries should be given "Crummey powers of withdrawal" over gifts made to the trust.
2. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

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