FERRELL
WEALTH MANAGEMENT INC.
Registered Investment Advisor

WEALTH MANAGEMENT NEWSLETTER

Here Are The Latest Tax Traps, Tips, And Tricks

Navigating the maze of investment tax rules isn't easy, especially when the law changes pretty much every year. And while tax-saving opportunities may present themselves, there also are little-known pitfalls that could increase your tax bill. Here are several tax traps, trips, and tricks to think about this year:

Trick: Use long-term losses to offset short-term gains.

When you lose money on an investment sale you can use that loss to offset capital gains that you realize, plus up to $3,000 of ordinary income. But because long-term capital gains are taxed at a maximum 15% tax rate—or 20% if you're in the top income bracket—you're better off preserving such losses to offset short-term gains, which are taxed at ordinary income rates of up to 39.6%.

Tip: Take advantage of higher education tax breaks.

The Section 529 college savings plan is one of the most powerful tools in the tax law. It lets you set aside money in state-sponsored plans and avoid paying taxes on investment growth within your account. Then, withdrawals made for most higher education expenses are completely tax-free. Also, if there's money left over, or if the first child doesn't go to college, you can change beneficiaries or continue the account for a younger child. Yet while this college tax break is open to everyone, other breaks, such as higher education tax credits and a tuition deduction, are phased out for high-income parents.

Tip: Stagger a Roth conversion over several years.

The promise of future tax-free payouts is enough to convince many people to convert traditional IRA funds into a Roth IRA, even though that means paying a conversion tax. But you can reduce the pain of that tax by making a gradual conversion and avoiding the highest tax brackets. For instance, if you're normally in the low end of the 28% bracket, convert only enough to reach the upper reaches of that bracket, without pushing into the 33% bracket. Doing this for a number of years could help you convert all or most of your traditional IRA funds without dire tax consequences.

Trap: Making excess IRA contributions.

Generally, you can contribute up to $5,500 a year to any combination of traditional and Roth IRAs, or $6,500 if you're age 50 or over. However, the ability to contribute to a Roth is phased out for upper-income taxpayers. If you exceed the annual limit and you don't withdraw the extra amount by your tax return deadline, the IRS may hit you with a 6% excess contribution penalty, plus you'll owe tax on the earnings. What's more, the penalty continues to apply for every year you don't take out

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Signs Indicate Borrowing Is Picking Up

As a region, the Eurozone represents the largest economy in the world – an economy that has been a drag on the pace of economic activity in recent years – so signs that borrowing is picking up is encouraging, not only for Europe, but also for the world economy.

Further equity gains also are expected in Japan as businesses begin to spend cash, driving the overall economy.

Fed uncertainty, dollar strength (consistent with the improving U.S. economy), oil volatility and earnings concerns all played into the domestic market instability, and the current quarter seems to be progressing much the same.

U.S economic growth has been stagnant since January but is predicted to rebound, despite missed targets in recently recent earnings reports. The unemployment rate is currently at 5.5%, the lowest since 2007, and the U.S. economy has experienced its best 12 months of job growth since 1994.

In firm news, Brette Connor, CFP, recently joined the Ferrell Wealth Management team. She previously served as our primary contact at Schwab and offers not only a broad level of expertise but also a deep understanding of our firm's operations. We're very happy to have her supporting us in various capacities!

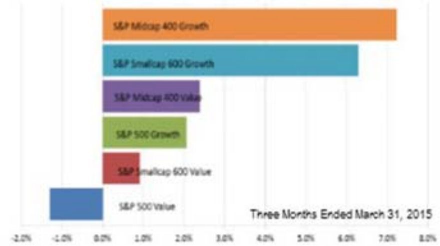
Warmest regards,

James W. Ferrell,
MBA, CPA, PFS, CIMC, CFP, President

Market Data Bank: 1st Quarter 2015Ψ

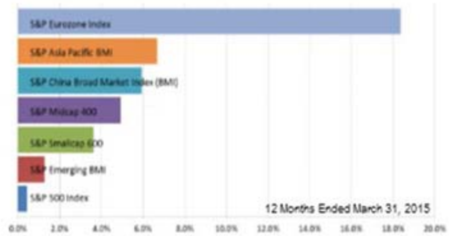
THE BIG PICTURE

Stocks started 2015 by bouncing around before hitting new all-time highs. With oil prices down 50% and strong employment data, in February stocks rallied. By March, with stocks riding high, investors began to worry the Federal Reserve Bank might tighten credit sooner than expected.



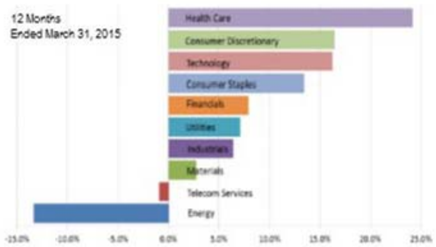
U.S. STOCKS

In the first quarter of 2015, mid-cap and small-cap stocks substantially outperformed large-caps, as they had done during the previous quarter. Riskier stocks regarded as "growth" investments outperformed less volatile value-style investments. The favorite style is generally fleeting over the long run.



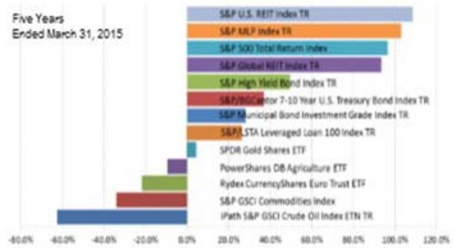
FOREIGN VS. U.S. STOCKS

U.S. stocks have outperformed foreign markets significantly since the global financial crisis. In 2015Q1, European stocks led. Europe's outperformance could presage a change in Europe's relative performance as the U.S. expansion is now over six-years old.



LARGE-CAP U.S. STOCKS BY INDUSTRY

Returns on health care stocks for the 12-month period led the 10 S&P 500 industry indices, followed by consumer-discretionary and technology stocks. Just two of the 10 sectors were hit for a loss over the period, indicating of the broad market rally experienced in the year. Energy stocks were slammed .



ASSET CLASSES±

Real estate was the No. 1 performing asset among a broad array of 13 asset classes for the five years ended March 31, 2015. Second best Master Limited Partnerships. U.S. stocks had five great years. Stocks tied oil prices were crushed and commodities as well as European investments trailed.

S&P 500 INDEX VS. EARNINGS¥

Red squares show expected earnings on the S&P 500 index based on a March 31 forecast by Wall Street analysts, for $121 per share in 2015 and $136 in 2016. The trajectory of earnings growth seems posed continue to propel stocks higher — unless a crisis or really bad unexpected news sets world progress back a bit.

Past performance of investments is not a very reliable indicator of future performance. ±Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves currency and political risk and foreign-country instability. Bonds offer a fixed rate of return while stocks fluctuate. ¥Estimated bottom-up S&P 500 earnings per share as of March 26, 2015 was $120.87 for 2015 and $136.42 for 2016. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through March 31, 2015; and actual earnings data through December 31, 2014.

Education Tax Breaks: Easy As 1-2-3

It takes a lot of scrimping and saving to put a child through college. However, you may be able to salvage some relief on your federal tax return, although some upper-income parents are locked out. Specifically, you may qualify for one or more of three main tax breaks—but you can choose only one each year. Here are the tax break choices:

1. American Opportunity Tax Credit (AOTC): The AOTC, formerly known as the Hope Scholarship credit, recently was extended through 2017. The maximum annual credit for this is $2,500. Notably, the AOTC is available for each qualified student who is a member of your family—so if you have three kids in school at the same time, you may take a maximum credit of $7,500 each year that they're all in school. Also, under a recent tax law change, you now can claim the AOTC for up to four years of college for each child. (Under prior law, the credit was allowed only for two years.) And this is a tax credit, not a deduction; if you get a $7,500 credit, your final tax bill is reduced by that amount.

However, the AOTC may be phased out depending on your modified adjusted gross income (MAGI). Currently, the phaseout range is between $80,000 to $90,000 of MAGI for single filers and $160,000 to $180,000 for joint filers. Once you go above the upper limits, you can't claim the AOTC.

2. Lifetime Learning Credit (LLC): The LLC is permanently in the tax law and doesn't have to be renewed each year by Congress. But a family can claim no more than the maximum credit of $2,000 regardless of how many students it has.

In addition, the LLC also is phased out at levels lower than the AOTC. Currently, the phase-out range is between $55,000 to $65,000 of MAGI for single filers and $110,000 to $130,000 for joint filers. As a result,

15 Midyear Tax Planning Moves To Make In ’15

You’ve just put your 2014 tax return to bed, but there’s no rest for the weary. It’s already time to focus on tax planning for 2015. Appropriately enough, here are 15 midyear tax-saving ideas to consider:

1. Harvest losses from securities sales. If you cashed in stock market winners earlier in the year, now’s a good time to start filling up the loss side of the ledger. Your capital losses will completely offset capital gains realized in 2015, plus up to $3,000 of highly taxed ordinary income.

2. Recognize low-taxed capital gains. Conversely, if you sell securities qualifying as long-term capital gains, the maximum tax rate is only 15% or 20% if you’re in one of the top two ordinary income tax brackets. But keep in mind that some upper-income investors also may have to pay a surtax of 3.8% on capital gains.

3. Take the 0% tax rate to the max. If you expect 2015 to be a low-income year (for example, you may incur a substantial business loss), a portion of your long-term capital gains may qualify for a rock-bottom 0% tax rate that applies to investors in the regular 10% and 15% tax brackets. When possible, realize investment income up to the top threshold of the 15% rate. Also, consider this strategy for your children.

4. Sidestep the wash sale rule. If you acquire securities that are substantially identical, within 30 days of selling securities at a loss, you can’t deduct the loss. But this harsh “wash sale” result can be avoided by waiting at least 31 days to buy back the same securities. Alternatively, you could buy the securities first and wait at least 31 days before selling your original shares.

5. Invest in dividend-paying stocks. Most stock dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, you must hold the shares for at least 61 days.

6. Arrange an installment sale. Generally, you can defer tax on the sale of real estate or other property if you receive payments over two years or longer. In addition to stretching out tax payments over time, you might reduce the effective tax rate if you stay below the thresholds for higher capital gains rates and the 3.8% surtax.

7. Contribute to a 401(k). Reduce your 2015 tax liability by increasing contributions to a 401(k) plan where you work. For 2015, the maximum deferral is $18,000 ($24,000 if age 50 or over). Not only do you avoid tax on the contributions, the money in your account compounds tax-deferred until you withdraw it during retirement.

8. Convert to a Roth IRA. If you have funds in a traditional IRA, you can convert some or all of those funds to a Roth IRA. Roth distributions in the future will be tax-free if they meet a few conditions. But you don’t have to convert all at one time. Instead, stagger taxable conversions over several years to lessen the tax bite.

9. Sell the old homestead. The tax law allows you to exclude tax on a gain of up to $250,000 for single filers and $500,000 for joint filers if you’ve owned and used a home as your principal residence at least two of the past five years. Your gain also is exempt from the 3.8% surtax.

10. Rent out a vacation home. You can write off certain rental activity costs, plus depreciation, but be careful: If your personal use of the rental home exceeds the greater of 14 days, or 10% of the days the home is rented out, your deductions are limited to the amount of your rental income.

11. Support your college grad. Generally, you can claim a $4,000 dependency exemption for a child graduating from college in 2015 if you provide more than 50% of the child’s annual support. Figure out the amount of support needed to put you over that mark.

12. Dust off charitable donations. Don’t toss out old furniture and clothing; give items in good condition to charity. Generally, you can deduct the fair market value of property donated to a qualified charitable organization, within certain limits.

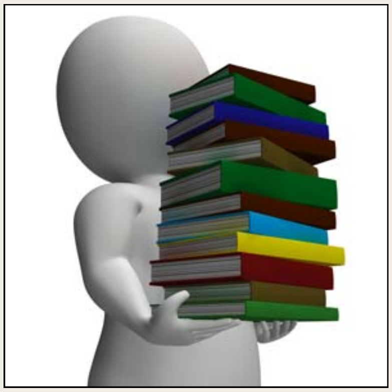
13. Send your kids to camp. If your under-age-13 children attend a day camp while you (and your spouse, if married) work this summer, you may qualify for the dependent care credit. However, the cost of overnight camp isn’t eligible.

14. Adjust your withholding. Check to see whether you’re having enough income tax withheld from your paychecks. Make necessary adjustments so you don’t have to pay an “estimated tax penalty” in 2015.

15. Give ’til it hurts. Finally, under the annual gift tax exclusion, you can give up to $14,000 to any family member in 2015 free of gift tax. This reduces the size of your taxable estate for the future. ●

the AOTC is generally more popular than the LLC.

3. Tuition deduction: Parents may be able to claim a deduction for college tuition and related fees for dependent children. The deduction is either $4,000 or $2,000, depending on your MAGI for the year. For single filers, the $4,000 deduction is available for a MAGI of up to $65,000 and $2,000 between $65,000 and $80,000. Similarly, joint filers can deduct $4,000 for a MAGI up to $130,000 and $2,000 if the MAGI total is between $130,000 and $160,000. There’s no deduction if you exceed the upper thresholds.



The Tax Increase Prevention Act of 2014 retroactively extended the tuition deduction for the 2014 tax year. It doesn’t currently apply in 2015, but Congress could decide to renew it.

Remember that you can claim only one of these three tax benefits – the AOTC, the LLC or the tuition deduction – on your federal tax return. Which to use depends on your particular situation. ●

When To Start Social Security?

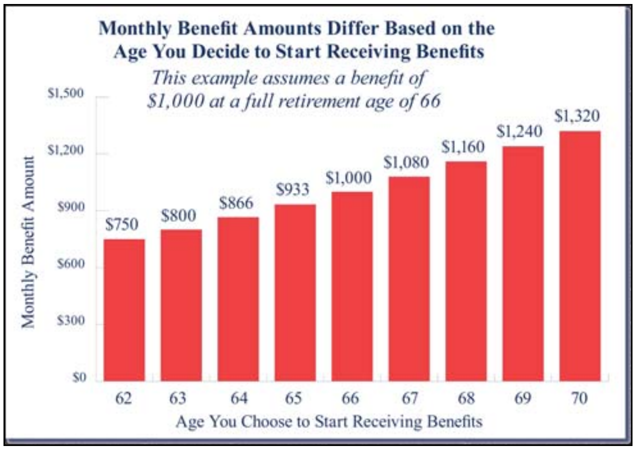
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Tax Traps, Tips, And Tricks

(Continued from page 1)

the excess.

Trap: Failing to take a required minimum distribution.

Once you're past age 70½, you normally must take a required minimum distribution (RMD) every year from your employer retirement plan accounts and IRAs. RMD amounts are based on the value of your account balance and life expectancy tables. To make matters worse, the penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn, but wasn't. Instead of leaving matters to chance, arrange RMDs well before the end of the year.

Trap: Breaking the wash sale rule.

The so-called "wash sale rule" prohibits you from claiming a loss on the sale of securities if you acquire "substantially identical" investments within 30 days of the sale. To avoid being washed out, wait at least 31 days to take a loss on the sale of securities you currently own. If you think the price of a particular investment may be about to rebound, you can buy the securities now and wait 31 days to sell your original lot. Note that there's no comparable tax rule for gains.

Trick: Use a thing called a NING.

The odd-sounding name is short for Nevada incomplete gift nongrantor trust. This sophisticated tax planning technique is based on creating a trust in Nevada, which, like just a handful of other states, has no state income tax. This effectively enables trust creators to avoid state income taxes in their home states. As a result, the NING has become a popular way to reduce taxes on sales of business interests and other large capital assets. Several other state variations exist.

These are only a few key suggestions. Huddle with your advisors to develop a comprehensive game plan that maximizes tax benefits and minimizes tax trouble. ●