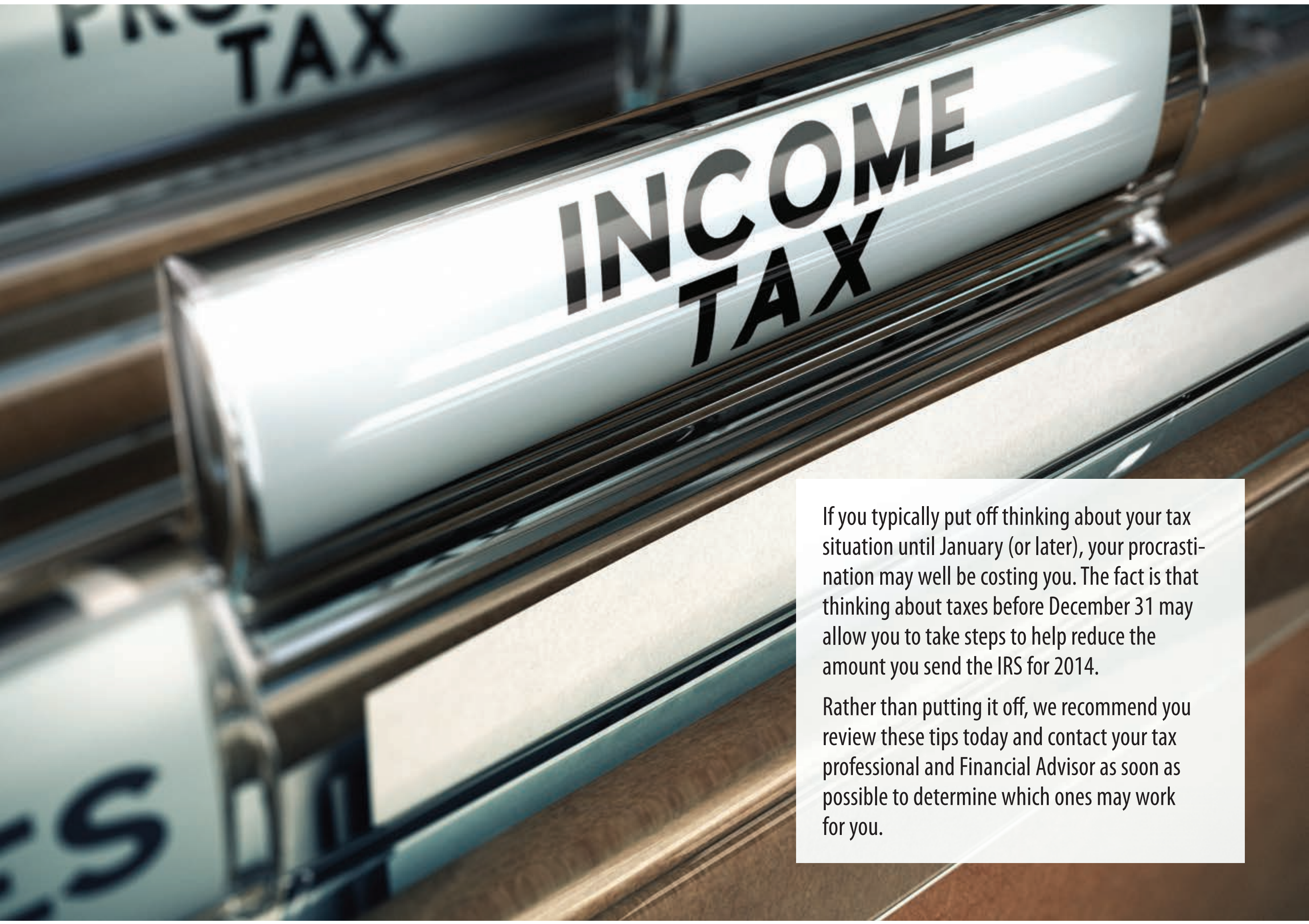
WELLS FARGO ADVISORS

A little preparation can go a long way

Eight timely ideas that may cut your tax bill



If you typically put off thinking about your tax situation until January (or later), your procrastination may well be costing you. The fact is that thinking about taxes before December 31 may allow you to take steps to help reduce the amount you send the IRS for 2014.

Rather than putting it off, we recommend you review these tips today and contact your tax professional and Financial Advisor as soon as possible to determine which ones may work for you.

Together we'll go far

IDEA NO.

1. Consider selling investments that haven't met expectations to realize capital losses

In general, you can use capital losses to offset capital gains, thereby reducing how much you owe the IRS. In addition, if you have capital losses leftover after you offset your capital gains, you can use up to $3,000 of them to reduce your taxable income. If you have more losses than that, you can carry them over to reduce your income in future years.

To deduct your losses, you have to "realize" them by selling investments. But before you sell, ask your Financial Advisor for a realized and unrealized gain/loss report to assess how much additional income and/or capital gains you should expect and how to manage that income. Then talk with your advisors about near-term portfolio moves to help lessen 2014 taxes.

Take care when selling and repurchasing

If you want to realize a loss on an investment that you want to hold on to, the simple solution is to sell your position, thus realizing the loss, and then repurchase the same investment. While you certainly can do this, you have to be careful to avoid violating what's known as the "wash sale" rule.

The wash sale rule won't let you claim a current tax loss if you buy (including through dividend reinvestment) the same or substantially identical security within 30 calendar days before or after the trade date of the sale that established the loss (a period of 61 calendar days). The lesson here is to wait more than 30 days before you repurchase the investment or, if you'd rather not wait to purchase the same investment, you can buy something that's similar but not substantially identical to what you sold.

Consider "doubling up"

Rather than selling your losing investment first, you may prefer to double up, which is a strategy where you purchase the additional shares of the security you own before selling your original position. The last day to double up (purchase the additional shares) for this year is November 28, 2014. If you wait later than that, you won't be able to sell your current position to establish the loss for this year without violating the wash sale rule.

IDEA NO.

2. Give gifts to help increase deductions

Making gifts to charity before yearend may reduce your tax bill if you can itemize your deductions. Here are important points to keep in mind:

- Cash contributions to charities must arrive by December 31. If you're making a contribution by check, the date you mail or deliver it will be considered the date of the gift (assuming the check clears in due course).
- If you're making a charitable contribution to a gift fund, the account must be open and the deposit completed before December 31 to qualify as a 2014 gift.
- If you are counting on an itemized charitable tax deduction and your adjusted gross income (AGI) is more than $254,200 (single) or $305,050 (married/joint), be sure you understand the phase-out rules regarding itemized deductions.

If you're planning to make nondeductible gifts to friends or family members, keep in mind you can give only $14,000 ($28,000 when combined with your spouse) to an individual without generating gift tax implications. Also, gifts must be completed by December 31 to qualify as 2014 annual exclusion gifts.

IDEA NO.

3. Time contributions and withdrawals to get more from education savings

Education Savings Accounts (ESAs) and 529 plan accounts are similar – they're both tax-advantaged vehicles to save for higher education expenses. They're also alike in that a distribution and the payment of the qualified education expense must occur in the same tax year for both ESAs and 529 plan accounts. Otherwise, the distribution could be considered a nonqualified withdrawal subject to ordinary income tax and a 10% penalty on the earnings portion (unless an exception applies).

However, the rules for making 2014 contributions differ:

- 529 plan contributions must be deposited into the account no later than December 31. If you're opening a new account, it must be open and the deposit received by the sponsor company no later than December 31.
- ESA contributions for 2014 can be made until April 15, 2015.

IDEA NO.

4. Contribute to your employer-sponsored plan to reduce taxable income

If you're not putting the maximum amount allowed into your employer's 401(k) or 403(b), consider increasing your contributions as soon as possible. The maximum you can defer into these plans in 2014 is $17,500 ($23,000 if you're age 50 or older). The deadline to make these contributions for this year is December 31, 2014.

If you're able to participate in a nonqualified deferred compensation (NQDC) plan at your employer, you may want to boost the amount you're contributing.

IDEA NO.

5. Manage your benefits savings accounts to help maximize their impact

Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs) generally require annual re-enrollment if you want to continue to participate. If you do, review your 2014 out-of-pocket expenses and adjust your 2015 contribution amounts accordingly. (Note: Many FSA arrangements are use-it-or-lose-it; balances are forfeited at year-end [confirm with your employer]; HSA balances, however, can be carried forward from year-to-year.)

IDEA NO.

6. Defer income or boost deductible expenses to help cut your income

If you're in a position to defer income you would normally receive in 2014 – a bonus, for example – into 2015, you may want to do so, especially if you think it'll be taxed at a lower rate if you receive it next year. Ask your tax advisor about paying for deductible expenses such as state income taxes in 2014, provided you can fully deduct your itemized deductions.

IDEA NO.

7. Develop a strategy for managing company stock benefits to help avoid surprises

Exercising incentive stock options (ISOs) or nonqualified stock options (NSOs) or restricted stock grants vesting in 2014 could have significant tax consequences, including alternative minimum tax (AMT) implications (see #8). If you have been granted any type of company stock benefit, work closely with your tax professional to develop both a short- and long-term strategy for managing these valuable benefits tax efficiently.

IDEA NO.

8. Beware of AMT triggers that can boost your tax bill

Even by IRS standards, the AMT rules are remarkably complex. Suffice it to say, your chances of paying AMT may increase if you have:

- Several dependents
- Interest deductions from home equity loans or refinanced mortgages that were not used to buy, build, or improve your home
- Interest from certain private activity municipal bonds (AMT bonds)
- High ordinary income or capital gains and/or high state and local taxes
- Exercised incentive stock options (ISOs) where you continue to hold the stock

Depending on your personal situation, other AMT adjustments may apply. Even limited exposure to one or two items that trigger AMT may subject you to the tax. Be sure to ask your tax professional about your situation and whether AMT plays a factor in your year-end strategies.

Stay tuned!

Age 70½ or older? Thinking about QCDs?

As of September, Congress has not reinstated qualified charitable distributions (QCDs), which allowed you to make tax-free contributions up to $100,000 from your traditional IRA directly to qualified charities. After the midterm elections, it's possible QCDs – along with other tax-related "extenders" – could be re-enacted. If you believe you could benefit from QCDs, stay in close touch with your tax professional and Financial Advisor for last-minute 2014 tax legislation updates.

Three steps to take starting today

1. Schedule an appointment with your tax professional to discuss your situation and review your 2014 tax projection.

2. Follow-up with your Financial Advisor to evaluate your portfolio strategies and any investment changes that may help lessen your 2014 tax bill. If it appears you'll be in one of the upper brackets, ask your Financial Advisor for a copy of our report, "Tax Strategies for Higher-Income Taxpayers."

3. Go beyond tax planning and create or update your *Envision*® investment plan profile. Unlike other investment planning tools, with an *Envision* plan, you can easily make adjustments to account for tax planning considerations or changes in your life (births, deaths, marriages, divorces, etc.).

For more information, contact your Financial Advisor. If you don't have a Financial Advisor with Wells Fargo Advisors, please use the locator available at ***wellsfargoadvisors.com*** *to find a branch near you.*

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