Given the constantly-changing nature of the U.S. tax code, an update from time to time is necessary. The subject matter has been divided into the following components: Income Tax, Capital Gains and Dividends, Corporate Tax and Estate and Gift Tax. We thought it interesting to compare the U.S. Federal taxes to other countries and Indiana state taxes to other states.

Income Tax
Federal income tax rates will range from 10% to 39.6% for taxpayers in 2015, depending upon adjusted gross income. The highest rate of 39.6% will be triggered at amounts over $413,200 for single taxpayers and $464,850 for those married and filing jointly. The standard deduction will be $6,300 for single taxpayers and $12,600 for those married, filing jointly. Those with itemized deductions above these amounts may benefit from filing on Schedule A.

While the U.S. has a higher top marginal tax rate than 17 of the 34 countries in the Organization for Economic Cooperation and Development (or OECD), overall the U.S. ranks near the bottom of the list for the total percentage of taxes related to GDP according to The Tax Policy Center. Total taxes in the U.S. constitute roughly 27.3% of the economy while the average among the group of developed nations is 36.2%. The country with the highest overall taxes was Denmark at close to 50% of GDP and the lowest was Mexico at 20% of GDP.

Indiana’s income tax rate is 3.3% and will decline to 3.2% in 2017. Personal exemptions are $1,000 for single taxpayers and $2,000 for married filing jointly. Of states with an income tax, Pennsylvania has the lowest rate at 3.07% and Hawaii and California rank near the top with rates of 11% and 12.3%, respectively. (See page 4.)
It’s always Mutual: Rick and Jennifer Hicks

If life was a juke box, it is reasonably certain Rick Hicks would never put a quarter in the slot and punch up “Take It Easy.” The Eagles would have to find another way to make his personal playlist.

The Kosciusko County entrepreneur spent 15 years building Keystone Designs into one of the top kitchen cabinet and countertop suppliers in the Midwest. Shortly after selling Keystone, Hicks rebooted with the appropriately named AIA, a self-described acronym for “at it again.” Once more, the company enjoyed spectacular success.

Fast forward to 2011, when another suitor came calling and offered to purchase AIA. This time, Hicks was honestly convinced he and his wife Jennifer were finally ready to spend a little time on the sidelines. Enjoy life at home. Perhaps make more regular trips to Rick’s native Florida. Simply hit the pause button now and then.

A noble notion destined for an early demise.

“I guess I’m one of those people geared and wired to work,” Hicks laughs while taking a rare break in the showroom at Groovemade, the latest venture he shares with Jennifer. “I tried to sit down for about three months. I really did! I just need to have things going on around me. I’ve got to keep moving.”

Groovemade is located in North Webster, the heart of Kosciusko County lakes country, specializing in concrete and metal industrial furniture and art. Perfect for lake homes and individuals looking for something unique. It is a creative heaven for the industrious couple. Rick has the expertise to manage the high tech CNC plasma cutting and concrete work. Jennifer has an eye for design, cultivated at the California Institute of Art.

Together, they produce distinctive wall hangings and free-standing art. They create signs for fun or function and build furniture from steel or concrete, or a combination of the two, that is highly industrialized and artistic.

“This has been a great way to work together,” Rick smiles. “Jennifer is the one with the artistic touch. I don’t have a creative bone in my body. She has a lot of talent. She comes up with the ideas. It’s my job to make ’em work.”

“We really enjoy offering people something they can’t find anywhere else,” Jennifer adds. “We can work with the customer on a set design or we can be really, really creative. That’s when it gets fun! Either way, I’m fortunate because I’m doing something I love to do.”

Meanwhile, as Rick and Jennifer have watched their newest business grow, their relationship with MutualBank has grown as well. It started with personal accounts. Then, came the business needs. They added MutualWealth to the mix following the sale of AIA.

“I’ve been with Mutual since the 1990s,” Rick explains. “It all goes back to Max Courtney and Bill Curl. Max never stopped asking me for my business and Bill gave me a car loan at a time when we were just getting started. I’ve always been appreciative of Mutual’s conservative approach.

The bank seems very careful about the way it does business. What we have found, since being a part of MutualWealth, is the bank is just as careful with our money as it was when we were asking for a loan.”

Rick and Jennifer work with Shayne Nagy, who takes a consultative approach with wealth management clients. He examined their needs and asked the couple about their goals for today and for the future. Perhaps, most important, Nagy also explores their risk tolerance and how it relates to those goals.

“Shayne is very professional and very genuine,” Jennifer says. “He doesn’t come across as the slick salesman you sometimes worry about when you’re dealing with money. He listens and has always been very direct with his answers. He knew right away we are not big risk takers and he respects our wishes. He is just very comfortable as our advisor.”

That said, true to form, the Hicks popped up and went back to work.

Excerpts taken from the November 4th interview with Rick and Jennifer Hicks and conducted by Vice President, Regional Manager, Vince Turner. Learn more at www.groovemadeart.com.
Economic and Markets: 2014 Review

2014 began in dramatic fashion with extreme winter weather that chilled the economy and iced over the stock market. The nation’s output, as measured by Gross Domestic Product (GDP), fell 2.1% in the first quarter and the S&P 500 stock market index dropped more than 5% over the first six weeks of the year. As the weather thawed, pent-up demand broke the ice and GDP surged 4.6% in the second quarter as businesses rebuilt inventories and consumers got out and began spending again.

Lower oil prices give consumers more cash to spend and lowers costs for businesses that use energy; however, there was some worry that lower oil was indicative of deteriorating economies in Europe and China and that it would eventually have a negative effect on the U.S. economy. Assurances by the Fed that they would temper the interest rate increases next year offset that concern. After setting a new record high, the S&P 500 closed 2014 with a gain of 13.69%, including dividends.

While large U.S. stocks performed well in 2014, emerging markets, developed international markets and small U.S. stocks underperformed.

The rate on the benchmark ten-year Treasury bond fell from 3.03% to 2.20% in 2014, lifting domestic bond indices to gains following mostly negative returns in 2013. The Municipal Bond index, the worst performer in 2013, was the top performer in 2014.

Gold ended down slightly in 2014, erasing its strong first half results while Real Estate Investment Trusts were one of the best performing asset categories with a gain of 28%.

A Word to the Wise

“...asset categories that do poorly often outperform in subsequent periods so, wider diversification remains a good idea.”

The U.S. stock market seems poised for further gains in 2015 with the economy performing reasonably well, growing corporate earnings, an average price/earnings ratio, low inflation and the expectation that any interest rate increase will be modest.

Keep in mind, asset categories that do poorly often outperform in subsequent periods, so wider diversification remains a good idea.

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Past index performance and returns are historical and do not guarantee or predict future results. This information may not be relied upon as investment advice.
Capital Gains and Dividends
Taxpayers in the 10% and 15% brackets will pay no long-term capital gains or dividend taxes in 2015. Those in the 25%, 33% and 35% brackets will pay 15% on long-term capital gains (on assets held for at least 12 months) and 15% on qualified dividends. Those in the 39.6% bracket will pay 20% on both long-term capital gains and qualified dividends. In addition, individual taxpayers with more than $200,000 in income and those who are married, filing jointly with over $250,000 in income will pay an additional 3.8% surcharge on investment income, which effectively makes the capital gains and dividend tax 23.8% for some. Short-term capital gains on assets, held less than 12 months will be taxed at ordinary income tax rates. The first $250,000 (per individual) or $500,000 (per married couple) of gains on the sale of a primary residence are exempt from capital gains taxes. The eligibility for this exclusion consists of owning and using a home as the primary residence for two years out of the five, prior to the date of sale.

The U.S. ranks near the top in average tax on investment income of 28.7% according to the Tax Foundation. This rate varies depending on where the taxpayer resides in. The U.S. at 28.7% is significantly higher than the average of 18% amongst all OECD nations. The highest rate was Denmark at over 40%. Nine countries in the OECD do not tax capital gains.

Indiana has no separate capital gains or dividend taxes. All income in Indiana is subject to the 3.3% rate after personal exemptions. The exception to this would be interest earned from tax-free municipal bonds. If the bonds are issued in Indiana, they are exempt from federal, state and local taxes. If instead, the bonds are issued by another state, they are exempt from federal tax, but not from state and local taxes for bonds purchased after January 1st of 2012.

Corporate Tax
The U.S. has the highest corporate income tax of the 34 members of the OECD at 35% or 39% when state corporate taxes are included. The average corporate tax rate in the OECD is 25%: the lowest rate is levied by Ireland at 12.5%. The U.S. is unique in that it levies taxes on domestic as well as foreign earnings. Most countries in the OECD only tax those earnings generated by businesses in their home countries.

Indiana corporate earnings are taxed at 7% and this rate will decline to 6.5% in July of 2015. With respect to corporate income taxes, Indiana is near the middle; corporate taxes range from 0% in states like Nevada and South Dakota and as high as 9.5% and 12% in Illinois and Iowa, respectively.

Estate and Gift Tax
Federal Estate Tax is a tax on the value of assets at date of death. This tax is levied on assets above $5.43 million. According to The Wall St. Journal, only 0.32% of estates will owe estate tax this year. The top rate is 40% for amounts above the $5.43 million threshold per person. The gift tax is owed by the individual making lifetime gifts that exceed $5.43 million. An individual who gives more than $5.43 million during their lifetime, to other individuals, will owe 40% on any excess gifts. The annual gift tax exclusion remains at $14,000 in 2015 and can be given to any number of individuals without impacting the lifetime gift allowance. One way to avoid reducing the lifetime gift allowance is by paying for others’ education and health care expenses directly to the university or health care provider. These payments fall outside the gift tax realm and pass free of gift or estate taxes.

According to UHY, an independent network of accounting and business consultants, the UK and Ireland levy the highest estate taxes among developed countries at an estimated 26% on estates of $3 million.

The average in their study globally was 7.6% on a $3 million estate. The U.S. taxpayer would compare favorably in this category as estate taxes aren’t levied on estates below $5 million presently. However, the U.S. rate of 40% on large estates is high, compared to many other developed countries. Australia, Israel and New Zealand have eliminated the tax altogether.

Although many states have a State Inheritance Tax, Indiana’s has been eliminated. On May 11, 2013, Governor Pence signed HB 1001, which repealed Indiana's inheritance tax retroactively to January 1, 2013.

A Word to the Wise
“Although many states have a State Inheritance Tax, Indiana's has been eliminated.”

Shayne Nagy, CTFA, Vice President, Trust 574-273-7612, shayne.nagy@bankwithmutual.com


