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2014 YEAR-END TAX PLANNING TIPS

Year-end Planning for Income Taxes is Critical! More Than 50 Popular Tax Benefits Expired at the End of 2013

Less than two months remain in 2014, but you still have time to act so you aren't surprised at tax-time next year. *We sug*gest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

2014 Has Been One of The Quietest Years for Tax Legislation in Recent Memory. More than 50 popular tax provisions expired at the end of 2013 and Congress failed to extend them before it recessed for the 2014 elections.

For individuals, these include, among others: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line deduction for qualified higher education expenses; the ability to deduct up to $2 million of mortgage debt forgiveness; and tax-free distributions by those age 70 or older from IRAs for charitable purposes.

For businesses, expired tax breaks include: 50% bonus first-year depreciation for most new machinery, equipment and software; an extraordinarily high $500,000 expensing limitation; the research tax credit; and the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

In late November the same deadlock-prone Congress returns to begin what is expected to be the lamest lame-duck session in a long time. Eventually many tax breaks will be retroactively reinstated and extended. Which benefits will get the okay, let alone when an extender bill will pass, is anyone's guess. Should Congress deadlock again (a real possibility) and the extender bill doesn't pass until 2015, the IRS says that the 2014 tax return filings and tax refunds will both be delayed.

On the Other Hand, the IRS Has Been Quite Active on the Regulatory Front. During 2014, the IRS issued a number of major regulations including rules that relaxed "use-it-or-lose-it" rules for flexible spending accounts, rules that give additional employer transition relief for new health coverage requirements, rules that provide a new home office deduction safe harbor and new procedures for requesting information during audits.

What's New for 2014?

- **Office-in-the-Home Deduction.** The IRS has provided an optional safe harbor method that individuals can use to determine the amount of their deductible home office expenses, effective for tax years beginning on or after Jan. 1, 2014. The safe harbor—$5 × square feet of qualified use (up to 300 square feet)—provides an alternative to the calculation, allocation, and substantiation of actual expenses that would otherwise be required.
- **Tax Treatment of Same-Sex Spouses.** The IRS and other Federal agencies issued guidance on the treatment of same-sex spouses and couples for tax and other purposes. The IRS acted in response to the Supreme Court's landmark Windsor decision striking down section 3 of the Defense of Marriage Act (DOMA). That act had required same-sex spouses to be treated as unmarried for purposes of federal law. This means refunds may be available to same-sex couples for prior years. Be sure to let us know if we can help you file.
- **Mileage Reimbursement Rates for 2014**. The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in **2014** is **56¢** per mile. The **2014** rate for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction is **23.5¢** per mile. The rate for using a car for **2014** charitable purposes remains at **14¢** per mile. (The 2015 standard mileage rates are expected to be announced by the IRS in early December.)
- **Reporting Changes in Circumstances.** If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2014. It is important that you report *changes in circumstances* to your Marketplace so

you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will help you avoid getting too much or too little premium assistance in advance.

- **Individuals and Dependents Must Have Health Insurance.** Beginning in 2014, the 2010 health care reform law (sometimes called Obamacare) requires individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty. Some taxpayers will qualify for an exception from this "individual mandate"; others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan; still others have coverage through a government program such as Medicare or Medicaid. For lower-income individuals who obtain health insurance in the individual market, a premium tax credit and cost-sharing reductions may be available to help offset the costs.
- **Depreciation Expensing.** Unless Congress changes the rules, for tax years beginning in 2015, the dollar limit for expensing fixed asset purchases will drop to $25,000, the beginning-of-phase-out amount will drop to $200,000, and expensing won't be available for qualified real property. The generous dollar ceilings that were available in 2014 are no longer available.

  The 50% bonus first-year depreciation generally won't be available next year unless Congress acts to extend it.
- **The 3.8% Medicare Investment Income Tax.** Higher earning taxpayers need to plan for the 3.8% Medicare tax on net investment income. This tax (actually new last year) was created as part of the Health Care Act. It comes into play when your modified adjusted gross income is over $250,000 for joint filers or surviving spouses, $125,000 for married individuals filing a separate return, and $200,000 in any other case. By deferring net investment income or reducing modified adjusted gross income or both, this tax might be minimized or avoided altogether.
- **The 0.9% Medicare Tax.** The Health Care Act also added another tax last year . . . an additional 0.9% Medicare (hospital insurance) tax that applies to individuals receiving employment wages in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately).

  This tax will be withheld by your employer in many cases, but there will be situations where you may need to have more withheld toward year-end to cover the tax. For instance, if you earned $150,000 from each of two employers during the year, you would owe the additional Medicare tax, but there would be no withholding by either employer for the additional tax.

  The new Medicare tax can also be over-withheld, usually when only one of the married couple works and the extra tax is withheld, but the couple's income won't be high enough to actually cause the extra tax to be owed.
- **Underwater on Your Home?** If you are currently underwater on your home (you owe more than your home is worth) and you are considering selling or getting a loan modification, you might want to wait a little longer. Qualified mortgage debt relief from your lender discharged in 2014 will be considered income. If Congress extends a previous tax benefit and makes it retroactive, any debt discharged on or after January 1, 2014, will not be considered income and taxes will not be owed on the amount forgiven.

2014 YEAR-END TAX TIPS

Use This Checklist and then Call Us

Not all these tips based on current tax rules will apply in your particular situation but you or a family member are likely to benefit from many of them. The sooner you call us for an appointment, the more time we will have to meet, find specific actions that will benefit you and your family and get you started on your year-end tax saving moves.

Year-End Tax Planning Moves for Businesses & Business Owners

Here are a few key tax-saving moves your business might make:

☐ **New Simplified Option for Claiming a Home Office Deduction.** Effective for taxable years beginning on or after January 1, 2014, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property, plus the deductibility of materials and supplies. A deduction for materials and supplies is allowed under a de minimis rule that includes property that has an acquisition or production cost of $200 or less.

☐ **Tax Treatment of Same-Sex Spouses.** For 2014, employers may claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures", including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility and for resource and referral expenditures.

☐ **Reporting Changes in Circumstances.** Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2015, and disposing of a passive activity to allow you to deduct suspended losses.

☐ **Credit for Small Employers' Employee Health Insurance Expenses.** Eligible small employers are allowed a credit for 50 percent of certain contributions made to purchase health insurance for their employees. Eligible employers are generally those with 10 or fewer FTEs with wages of

$25,000 or less that offer a qualified health plan (QHP) through a Small Business Health Options Program exchange. The credit amount begins to phase out for employers with either 11 FTEs or average annual employee wages of more than $25,000. The credit is phased out completely for employers with 25 or more FTEs or average annual employee wages of $50,000 or more.

☐ **Ownership Transition.** If you plan to exit or transition your business to new ownership, it will pay to do some tax planning well in advance. Not only can tax planning be financially rewarding, but a well thought out tax plan can give you peace of mind. We can help you create a comprehensive, integrated strategy that addresses business financial planning, personal financial planning, management succession, an estate plan and a plan for ownership transition.

☐ **S Corporation Election.** Consider incorporating and electing S Corporation status or, if your business is already incorporated, consider switching from C to S corporation status. Doing so will avoid federal and state double taxation on business income and recognized gains at the time of a future sale or liquidation. (C corporations pay corporate tax on their taxable income and then any dividends paid to shareholders is taxed again at the shareholder level.)

Once your business converts from C to S status, a 10-year period must pass before a future sale or liquidation can completely escape double taxation. Until then, if you sell an asset owned when S Corporation status was elected, there will be tax on the gain existing at the time the S election was made; all appreciation after that date will avoid double taxation.

Year-End Tax Planning Moves for Individuals

Here are a few key tax-saving moves that might save you some money:

☐ **Employer's Health Flexible Spending Account.** If you put too little into your employer's health flexible spending account (FSA) this year, increase the amount you set aside for next year. If your employer takes advantage of an FSA option, you may be able to carryover $500 into the following year. If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2014.

☐ **Estimated Income Tax.** If you receive income that's not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. Check with us and we can help you figure out how much estimated tax you may need to pay.

☐ **Energy Credits.** Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs. If you have made improvements to your home or plan to by the end of 2014, please contact us to discuss the amount of the credit you might qualify for.

☐ **Convert to a Roth IRA.** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2014.

☐ **Postpone Income to 2015.** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. In some cases, it may pay to actually accelerate income into 2014. That may be the case where a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2015 will result in a higher tax credit for an individual who purchases health insurance and is eligible for a premium assistance credit. Keep in mind that delaying 2014 income into 2015 might push you into a higher tax bracket next year or have a detrimental impact on various income tax deductions that are reduced at higher income levels.

☐ **Use a Retirement Rollover to Avoid Penalties.** Facing a penalty for underpayment of estimated tax and increasing your withholding won't solve the problem? Take an eligible rollover distribution from a qualified retirement plan before the end of 2014. Income tax will be withheld from the distribution. Then you rollover the gross distribution amount into traditional IRA. None of the distribution will be included in 2014 income, but the tax withheld will be applied pro-rata over the full 2014 tax year, reducing any previous underpayments of estimated tax.

☐ **Take Stock Losses in 2014.** Harvest your losses on stocks while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It might be advisable for us to meet to discuss year-end trades you should consider making.

☐ **Accelerate deductions into 2014 to lower your 2014 tax bill.** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2014 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, above-the-line deductions for higher-education expenses and deductions for student loan interest.

☐ **Pay First Quarter Education Expenses Early.** Unless Congress extends it, the up-to-$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2014. If doing so will increase your total deduction for qualified higher education expenses, consider prepaying 2015's first quarter eligible expenses.

- ☐ **Consider Reversing your 2014 IRA to Roth IRA Conversion.** If you converted assets in a traditional IRA to a Roth IRA earlier in 2014, the assets in the Roth IRA account may have declined in value. That means if you leave things as-is, you will wind up paying a higher tax than is necessary. You can still back out of the conversion by recharacterizing the rollover, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.
- ☐ **Use a Retirement Rollover to Avoid Penalties.** Facing a penalty for underpayment of estimated tax and increasing your withholding won't solve the problem? Take an eligible rollover distribution from a qualified retirement plan before the end of 2014. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2014. You can then timely roll over the gross amount of the distribution (that's the net amount you received plus the amount of the withheld tax) to a traditional IRA. No part of the distribution will be includible in income for 2014, but the withheld tax will be applied pro rata over the full 2014 tax year to reduce any previous underpayments of 2014 estimated tax.
- ☐ **Don't Forget Your RMDs.** Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

NOW IS THE TIME TO PLAN FOR YOUR 2014 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2015 is likely to mean missing tax saving opportunities that are only available until the end of 2014.

In 2014 did you have a significant income change; change your name or address; marry, divorce or live apart from your spouse; have or adopt a child; lose a spouse or a child; start or sell a business; purchase or sell business equipment or rental property; create a living trust; or receive any correspondence from the IRS?

Call today for a tax planning appointment. The sooner we meet, the more time we will have for tax saving action.

Please visit our website (hubertcpa.com) to view additional tax newsletters and helpful links and information.

Your business is appreciated, as are your referrals of friends, relatives and business contacts.

Please call or e-mail us with any questions, tax planning thoughts or concerns.

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