



November 19, 2014

Dear Clients and Friends,

The end of another year is fast approaching, and it's once again time to take steps to reduce taxes on your personal and business returns. Congress continues to discuss last minute income tax bills as of the date of this letter, and you can be assured we stay abreast of all the latest changes as they occur! Planning advice for 2014 includes strategies for accelerating deductions and deferring income as well as managing assets.

* **Bunch your deductions.** For example, bunching deductions on your personal income tax return can make sense for 2014. Bunching means you concentrate itemized deductions into the year offering the most tax benefit and claim the standard deduction in alternate years. Even if the current limitation on itemized deductions applies to you, bunching can be effective when combined with other tax planning such as reducing adjusted gross income.

One category of itemized deductions that lends itself to bunching is charitable contributions. In general, as long as you have written acknowledgment from a qualified charity for any individual contribution over \$250, you can deduct donations in the year you write the check or put the charge on your credit card.

Instead of cash, donating appreciated assets before December 31 may be more tax advantageous. When you contribute property you have owned for more than a year, you can usually deduct the full fair market value.

For instance, say the value of the shares you own in a mutual fund has gone up since you bought into the fund. If you sell those shares and donate the proceeds to charity, you'll have capital gain. But when you donate the shares to the charity, you can claim a deduction for the value on the date of your donation, garnering a benefit without the related income tax bill.

Other itemized deductions you can control in order to maximize tax savings include real estate taxes and state income taxes.

* **Check exposure to the AMT.** Just remember to check your exposure to the alternative minimum tax and the 3.8% net investment income tax when deciding in which year to pay these tax bills. Why? Certain itemized deductions - such as taxes - are disallowed under the AMT rules, but can help reduce exposure to the net investment income tax.

What if you're not planning to itemize? Taking a look at your deductions is still a useful exercise. One reason: The standard deduction is also disallowed under AMT rules, and you may benefit by itemizing even when your total itemized deductions are under the threshold.

The standard deduction for 2014 is \$12,400 when you're married filing jointly and \$6,200 when you're single.

*** Monitor adjusted gross income.** Another tax planning strategy is to reduce adjusted gross income (AGI). One way to do this on your personal tax return is to maximize above-the-line deductions. These are expenses you can claim even if you don't itemize. Above-the-line tax savers include such items as retirement plan contributions, student loan interest deduction, and the health savings account deduction.

*** Set up a retirement plan.** When you have a business, contributions to a self-employed retirement plan also reduce AGI above-the-line. Depending on the plan you choose, you can set up the paperwork before year-end and make contributions by the due date of your 2014 tax return.

For instance, say you're the sole owner of your business. Establishing a 401(k) gives you the opportunity to set aside as much as \$17,500 in salary deferral (plus an extra \$5,500 if you're over age 50). In addition, you can put up to 20% of your business profit into your plan.

*** Manage asset policies.** Another tax-saving suggestion for your business is to review your asset management policies. Depreciation is probably the first thing you think of when you consider tax benefits for business assets. And you probably already know bonus depreciation expired at the end of 2013 and the Section 179 expensing deduction was reduced to \$25,000 for 2014. (Be aware that Congress may reinstate the larger deductions.)

While accelerated depreciation tax rules affect your current year deduction, remember that changes to these rules have no impact on the total amount you can deduct over the life of an asset. In addition, you still have tax planning opportunities.

One such opportunity is to take advantage of the new repair and capitalization regulations. These rules, which generally take effect this year, provide safe-harbor thresholds for writing off the cost of certain business supplies, repairs, and maintenance. What you need to do before year-end: Create and implement a written policy to comply with the rules.



Another potential tax saver involving business assets: Examine the tax benefits of leasing business equipment instead of buying. Depending on the type of lease, you may be able to deduct payments in full as you make them. What's the downside? Generally you'll forfeit depreciation deductions. Run an analysis to determine which option will work best for you.

* **Consider shifting income.** A planning strategy to help reduce taxes on both your business and personal returns is shifting income among family members.

For your business, the strategy could mean hiring family members and paying a reasonable - and deductible - salary for work actually performed. You may be able to provide tax-deductible fringe benefits as well as save on payroll tax expense.

An income-shifting technique is to make gifts of income-producing property to family members in lower tax brackets. (Be aware of the "kiddie tax.") Though you can't take a tax deduction for gifts, future income is taxed to the recipient, and may mitigate your exposure to the 3.8% net investment income tax.

Gifts of up to \$14,000 per person (\$28,000 when you're married) made before year-end incur no income, gift, estate, or generation-skipping taxes.

The Affordable Care Act: How will it affect your 2014 taxes?

Staggered start dates. Exceptions. Waivers. Are you still trying to determine how the health care laws will affect your 2014 personal and business federal income tax returns?

Here's an overview of some current rules.

* **Individual penalty.** The 2014 Form 1040 has a new line for reporting the "individual responsibility payment." You'll owe this penalty if you or your dependents did not have health insurance during the year and don't qualify for an exemption.

The amount you'll report on your 2014 tax return is the greater of \$95 per adult and \$47.50 per child, up to a maximum family penalty of \$285, or 1% of your "household income formula."

* **Individual premium credit.** Depending on your income, you may be eligible for a reduction in the cost of your health insurance premium during the year.



When you signed up for insurance on the health insurance exchange, you had the option to use the reduction to offset your premiums as you paid them. Alternatively, you can apply for the credit when you file your 2014 federal income tax return.

The amount of the credit depends on your income and family size.

* **Net investment income surtax.** You may be familiar with this 3.8% surtax from last year's return. It applies to net investment income - income such as dividends, interest, and capital gains, less related expenses - when your adjusted gross income (AGI) exceeds certain levels.

Those levels have not increased for 2014. When you are married filing jointly, the surtax applies if your AGI exceeds \$250,000. When you're single or filing as head of household, the AGI threshold is \$200,000.

* **Medicare surtax on wages.** As in 2013, this 0.9% surtax applies to wages, compensation, and self-employment income when your AGI exceeds \$250,000 and you're married filing jointly. When you're single or filing as head of household, the AGI threshold is \$200,000.

* **Business health insurance premium credit.** Did you pay at least 50% of the health insurance premium costs for your employees during 2014? If you employed fewer than 25 full-time equivalent employees and paid them wages of less than \$50,800, you may be able to claim a credit of up to 50% of the premiums you paid.

The credit is available even if you claimed it in prior years. Tax-exempt organizations can also benefit.

* **Business fee.** When you self-insure your business health care expenses, you may have to pay a fee to help fund a healthcare research institute. The fee may also apply to your health reimbursement arrangement or health flexible spending arrangement.

* **Employer penalties.** Depending on the number of workers you employ, you may be penalized for not providing health insurance and/or not providing affordable health insurance.

Neither penalty applies for tax year 2014. However, you'll want to review your workforce to determine whether the penalty will affect you in the future.



Beginning January 1, 2015, the penalty will apply when 100 or more full-time employees work in your business. The penalty applies in 2016 when your business employs 50 or more full-time workers. When you employ fewer than 50 workers, you're not subject to the penalty.

*** Employer reporting.** The health care laws included a requirement for reporting on Forms W-2 the cost of the health insurance coverage you provide to your employees. However, reporting is optional for 2014 when you file fewer than 250 Forms W-2.

There are literally hundreds of other changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes, we are requesting everyone to try to have their tax information in to us at least two weeks earlier than normal, and no later than March 18, 2015. Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount.

This memo is sent annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Thank you again for your continued support.

Sincerely,

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President
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