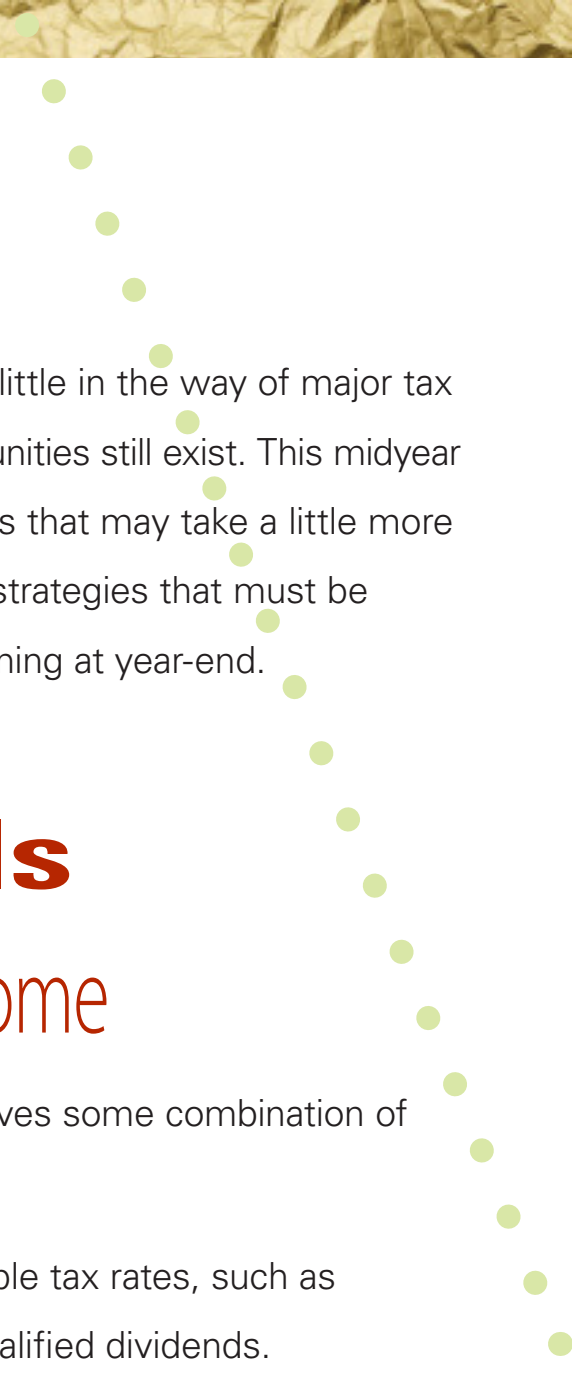
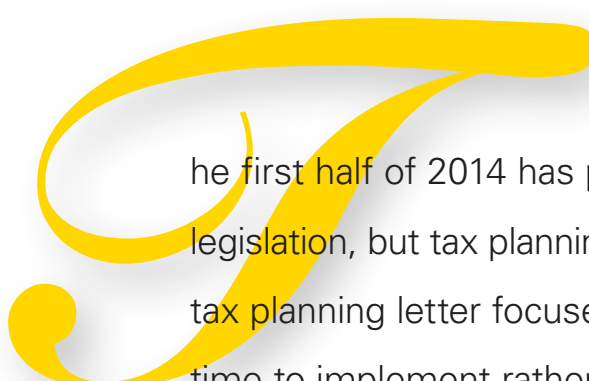


2014

Midyear Tax Planning Letter



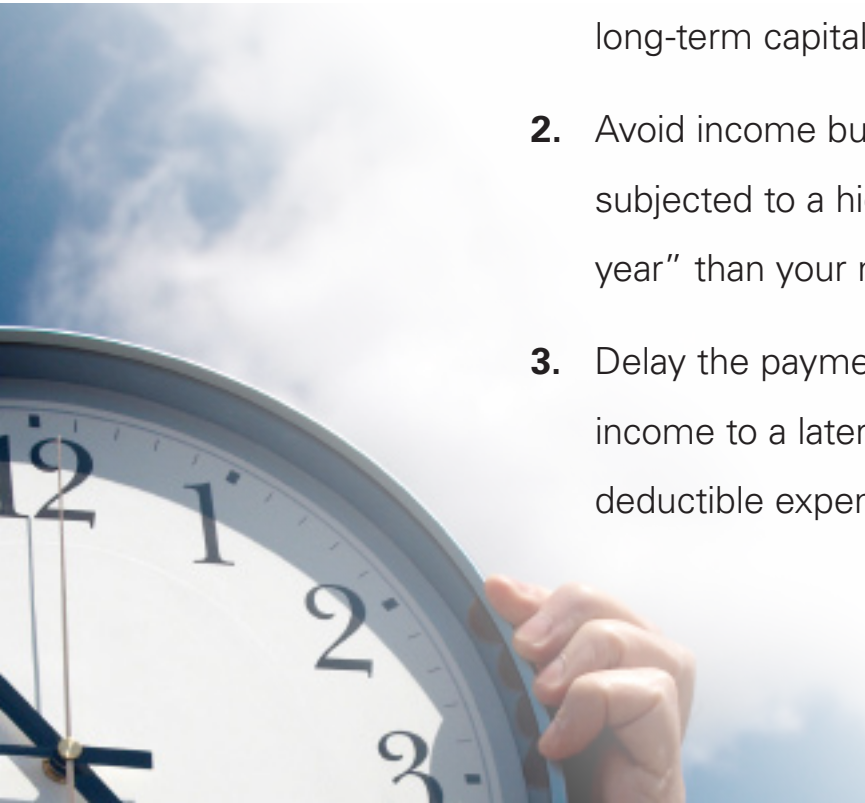



he first half of 2014 has produced little in the way of major tax legislation, but tax planning opportunities still exist. This midyear tax planning letter focuses on plans that may take a little more time to implement rather than on strategies that must be executed in the limited time remaining at year-end.

Individuals


Managing your income

Income tax planning typically involves some combination of three strategies:

1. Earn income taxed at favorable tax rates, such as long-term capital gains or qualified dividends.
 2. Avoid income bubbles, which can cause you to be subjected to a higher marginal tax rate in the “bubble year” than your normal, or average, marginal tax rate.
 3. Delay the payment of tax by deferring the receipt of income to a later year or accelerating the payment of deductible expenditures into the current year.
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Managing your income to minimize your tax has become more challenging with the advent of complex tax provisions such as the alternative minimum tax (AMT) and the 3.8 percent surtax on net investment income. The former causes you to lose any tax benefit from otherwise tax-deductible expenditures, such as state income taxes and real estate taxes on your home. The latter subjects your investment income to a premium tax rate if your adjusted gross income (AGI) exceeds a stated threshold.

When you are estimating your income for 2014, you may want to consider several target figures:



	Married Filing Jointly	Unmarried	Married Filing Separately	Head of Household
AMT thresholds				
AMT exemption	\$ 82,100	\$ 52,800	\$ 41,050	\$ 52,800
28 percent AMT tax bracket begins	182,501	182,501	91,251	182,501
AGI thresholds				
3.8 percent surtax applies to net investment income when AGI exceeds	\$250,000	\$200,000	\$125,000	\$200,000
Taxable income thresholds				
20 percent tax rate for long-term capital gains and qualified dividends begins	\$457,601	\$406,751	\$228,801	\$432,201
Itemized deduction phaseout begins	305,051	254,201	152,526	279,651
Exemption phaseout begins	305,051	254,201	152,526	279,651




Paying your income taxes

If you do not pay enough tax throughout the year, penalties may apply. But with proper planning, the penalties are avoidable.

If it appears that you will be subject to an underpayment penalty, you may be able to reduce or eliminate the penalty by initiating or increasing your quarterly estimated tax payments.

If you're employed, instructing your employer to withhold more from your pay can even eliminate penalties that accrued earlier in the year. A quirk in the penalty rules treats withheld taxes – even withholding that occurs late in the year – as if they had been taken evenly throughout the year.

While most people want to avoid unnecessary penalties, it is seldom a good idea to pay more than the law requires or to pay your taxes earlier than necessary. Why let the government hold your money only to return it to you next year as a tax refund – with no interest?



Your goal should be to pay just enough to avoid an underpayment penalty but not so much as to create a large refund. If it looks as if you have been paying too much tax, cut back on your withholding or lower your remaining quarterly estimated tax payments.

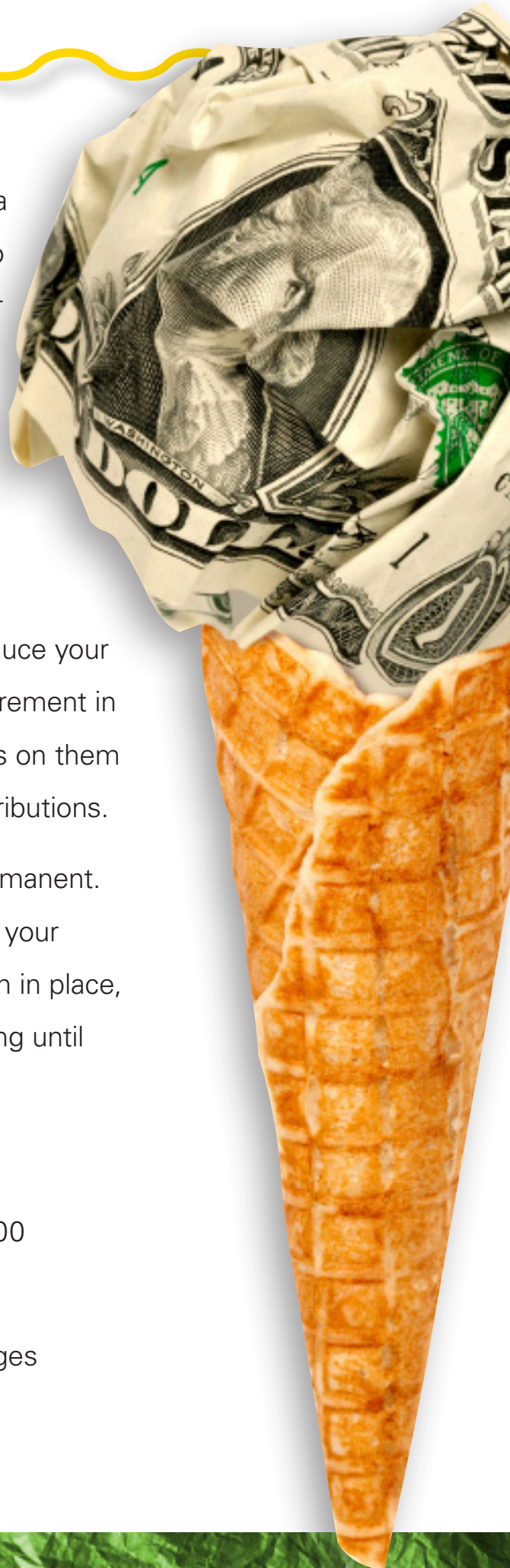
Funding your retirement plans


Contributing to a tax-qualified retirement plan can reduce your current tax obligations and help you save for your retirement in a tax-efficient manner. Contributions and the earnings on them provide tax deferral on earnings until you receive distributions.

In the case of Roth IRAs, the tax deferral may be permanent. So the sooner you make the contribution, the sooner your tax-deferred earnings begin. If you already have a plan in place, consider making a contribution now rather than waiting until the last minute.

The following limits apply for the 2014 tax year:

- ▲ Participants in a 401(k) plan can defer up to \$17,500 (\$23,000 for ages 50 or older).
- ▲ The IRA contribution limit is \$5,500 (\$6,500 for ages 50 and older).



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- ▲ Simple IRA participants can defer up to \$12,000 (\$14,500 for age 50 and older).
 - ▲ Self-employed individuals can contribute 20 percent of their self-employment income up to \$52,000.

IRAs and Roth accounts – Anyone with earned income, including alimony, is generally eligible to contribute to an IRA. That means that a child who has a job can set up an IRA and begin saving for retirement.

Claiming a deduction for your contribution to a traditional IRA is another matter. It depends on your income and whether you (or your spouse if you are married) are covered by an employer-sponsored retirement plan. Contributions to a Roth IRA are never deductible.



- ▲ If neither you nor your spouse is covered by an employer's plan, you may choose to deduct your contribution to your traditional IRA.
- ▲ At higher income levels – modified adjusted gross income above \$70,000 for singles and \$116,000 for joint filers – no deduction is allowed if you (and your spouse if you are married) are covered by an employer's plan.
- ▲ If you are married and only one of you is covered by an employer's plan, the spouse who is not covered may claim the deduction, unless your joint modified adjusted gross income exceeds \$191,000.

Many people find the long-term benefits of contributing to a Roth IRA or a Roth 401(k) outweigh the short-term financial benefits of tax-deductible contributions. While Roth contributions are not tax-deductible, none of the income earned in the Roth account will ever be subject to income tax unless there are early distributions. In addition, the Roth account is not subject to the lifetime required minimum distribution rules that apply when you reach age 70½.





Eligibility to contribute to a Roth IRA depends on the amount of your income. No contribution is allowed if your modified adjusted gross income for 2014 exceeds \$129,000 for singles or \$191,000 for joint filers.

You can make a direct rollover from your traditional IRA or other qualified retirement plan into a Roth IRA. However, you must

pay tax on the rollover amount. There is no income limit associated with Roth rollovers.

“Magic age” years – Is 2014 a magic-age year for you?

There are two ages that affect retirement plans, and both involve a “half birthday.” Once you reach age 59½, the extra 10-percentage-point penalty no longer applies to distributions from your qualified retirement plans, including IRAs.

But if you reach age 70½ during 2014, you must begin to receive minimum distributions from your traditional IRAs. Although the first annual distribution need not be taken until April 15, 2015, you may want to take the first distribution during 2014 to avoid the need for two distributions in 2015.

Changes to the 60-day rollover rule – 2014 will be the last year that you can obtain multiple short-term tax-free loans from

your IRAs. A withdrawal from your IRA is treated as a tax-free transaction if you redeposit the amount into the same or another IRA no later than 60 days after the date you made the withdrawal. Note that the IRS may waive the 60-day requirement under some circumstances, for example, an error by your financial institution.






You are allowed only one tax-free rollover per year. The one-year waiting period begins on the date you receive the IRA distribution, not on the date you roll it back into another IRA.

For years, the IRS had said that the one-year waiting period applied separately to each of your IRAs. After the Tax Court interpreted the rule differently in its *Bobrow* decision (TC Memo 2014-21), the IRS decided to treat all of your IRAs as one IRA for purposes of the one-year waiting period. However, the IRS says it will not apply this more restrictive interpretation to any rollover that involves a distribution from an IRA before Jan. 1, 2015.

Rollovers between Roth IRAs are subject to the same 60-day rule and one-year waiting period that apply to rollovers between traditional IRAs. After 2014, all of your Roth IRAs will be treated as one Roth IRA for purposes of the one-year waiting period between rollovers.




Rollovers from employer retirement plans to IRAs do not count for purposes of the one-year waiting period. Similarly, conversions of regular IRAs to Roth IRAs are not considered. The one-year waiting period also does not apply to trustee-to-trustee transfers between traditional IRAs or between Roth IRAs.

Making your home energy efficient

While most of the residential energy tax credits expired at the end of 2013, one remains in effect – the credit for qualified expenditures made for residential energy-efficient property placed in service before Jan. 1, 2017. The IRS defines qualified expenditures for residential energy-efficient property to include:



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- ▲ Qualified solar electric property expenditures for use in a qualifying dwelling unit
 - ▲ Qualified solar water heating property expenditures for property that heats water for use in a qualifying dwelling unit, if at least half of the energy used by the property for such purpose is derived from the sun
 - ▲ Certain qualified fuel cell property expenditures
 - ▲ Qualified small wind energy property expenditures for property that uses a wind turbine to generate electricity for use in connection with a qualifying dwelling unit
 - ▲ Certain qualified geothermal heat pump property used to heat a dwelling unit or as a thermal energy sink to cool the dwelling unit that meets the requirements of the Energy Star program

The residential alternative energy credit is equal to 30 percent of the cost of eligible solar water heaters, solar electricity equipment, fuel cell plants, small wind energy property and geothermal heat pump property.

You may rely on a manufacturer's certification that property is eligible for the credit, so long as the IRS has not withdrawn the manufacturer's right to make the certification.

Complying with the Affordable Care Act

Starting in 2014, lower-income individuals may be eligible for a tax credit to help pay for health insurance coverage purchased through an Affordable Insurance Exchange. The credit is refundable, so those with little or no income tax liability can still benefit. The credit also can be paid in advance to the insurance company to help cover the cost of premiums.

Starting in 2014, the individual shared responsibility provision calls for each person to have minimum essential coverage for each month, qualify for an exemption or make a payment when filing his or her federal income tax return. The open enrollment period to purchase health insurance coverage for 2014 through the Affordable Insurance Exchange ran from Oct. 1, 2013, through March 31, 2014.






Keeping good records

Every April, most people resolve that “next year” they are going to keep better tax records. While it is obvious that, if you do not keep good records, you are likely to overlook legitimate tax deductions, the result could be even harsher.

In the *Durden* decision (TC Memo 2012-140), the Tax Court disallowed a couple’s cash charitable contribution deduction to their church even though they could prove the payments with canceled checks. The tax law requires a contemporaneous written acknowledgment from the charity for gifts of \$250 or more.

In this case, the couple obtained the required letter after their tax return was being examined by the IRS. The court denied the deduction because the letter was not issued prior to the due date of the tax return as required by the tax law.





Business Activities

Whether you own your business or work for someone else, a number of tax savings opportunities could be available to you if you stay alert and keep good records.

Changing jobs

Costs you incur in seeking new employment may be deductible if you itemize. And if you have to relocate, the cost of moving yourself and your family may be deductible – even if you don't itemize.

As with most provisions of the tax law, a review of the technical rules is necessary to determine whether you qualify. Be sure to contact your tax adviser.





Hiring your children

If you own a business and have children, consider putting them to work during summer vacation or after school. You will be able to deduct their wages, as long as you make their pay commensurate with what you would pay nonfamily employees for the same services.

For 2014, each child can earn as much as \$6,200 and pay zero income tax. A child who earns \$11,700 and contributes \$5,500 to a traditional IRA will also pay zero income tax.

Honing your job skills

Parents of college-age students are generally aware of education tax credits like the American Opportunity Credit. If you undertake

training to maintain or enhance your job skills or if you pursue an additional degree, you may qualify for the Lifetime Learning Credit or be able to deduct the cost of your education or training as an itemized deduction.

Talk with your tax adviser. Not only are you never too old to learn, but you're also never too old to claim a tax benefit.

Working from home

If you operate a business from your home and use a distinct room or area solely for business activities, you may qualify for a home office deduction. The IRS has simplified the record-keeping requirements but not the qualification requirements. In rare cases, employees who are required by their employer to work from home may also qualify for this deduction.



Caring for dependents

Working couples with young children and those caring for aged relatives often incur costs associated with hiring outside caregivers so that they can work or go to school. Some of these costs may qualify for the dependent care tax credit. Qualifying costs may include day camp and similar activities during the summer months.

Establishing a retirement plan

If you own a business, you may be able to avail yourself of a defined benefit type of retirement plan. These plans often allow higher retirement contributions than other types of plans. The higher retirement benefit must be weighed against the additional cost of providing comparable retirement benefits for your employees.

To qualify for a tax deduction in 2014, your retirement plan generally must be in place before the end of the year. Exceptions are IRA and SEP (simplified employee pension) plans, which can be set up through April 15, 2015.





Small employers – generally those with 100 or fewer employees – that set up a qualified retirement plan may be eligible for a tax credit of up to \$500 per year for three years. The credit is limited to 50 percent of the qualified startup costs.

Writing off capital expenditures

Generous business tax write-off rules, like bonus depreciation, expired at the end of 2013. And the expensing election limit under Section 179 has been reduced to \$25,000 for 2014, but only if the total amount of qualified asset purchases does not exceed \$200,000.

Depreciating vehicles

For passenger automobiles first placed in service during 2014, the deduction limitations for the first three tax years are \$3,160, \$5,100 and \$3,050, respectively, and \$1,875 for each succeeding year. For trucks and vans first placed in service in 2014, the depreciation limitations for the first three years are \$3,460, \$5,500 and \$3,350, respectively, and \$1,975 for each succeeding year.

In past years, bonus depreciation made the first-year limitation much higher. However, since bonus depreciation expired on Dec. 31, 2013, the new limits will apply for 2014 unless



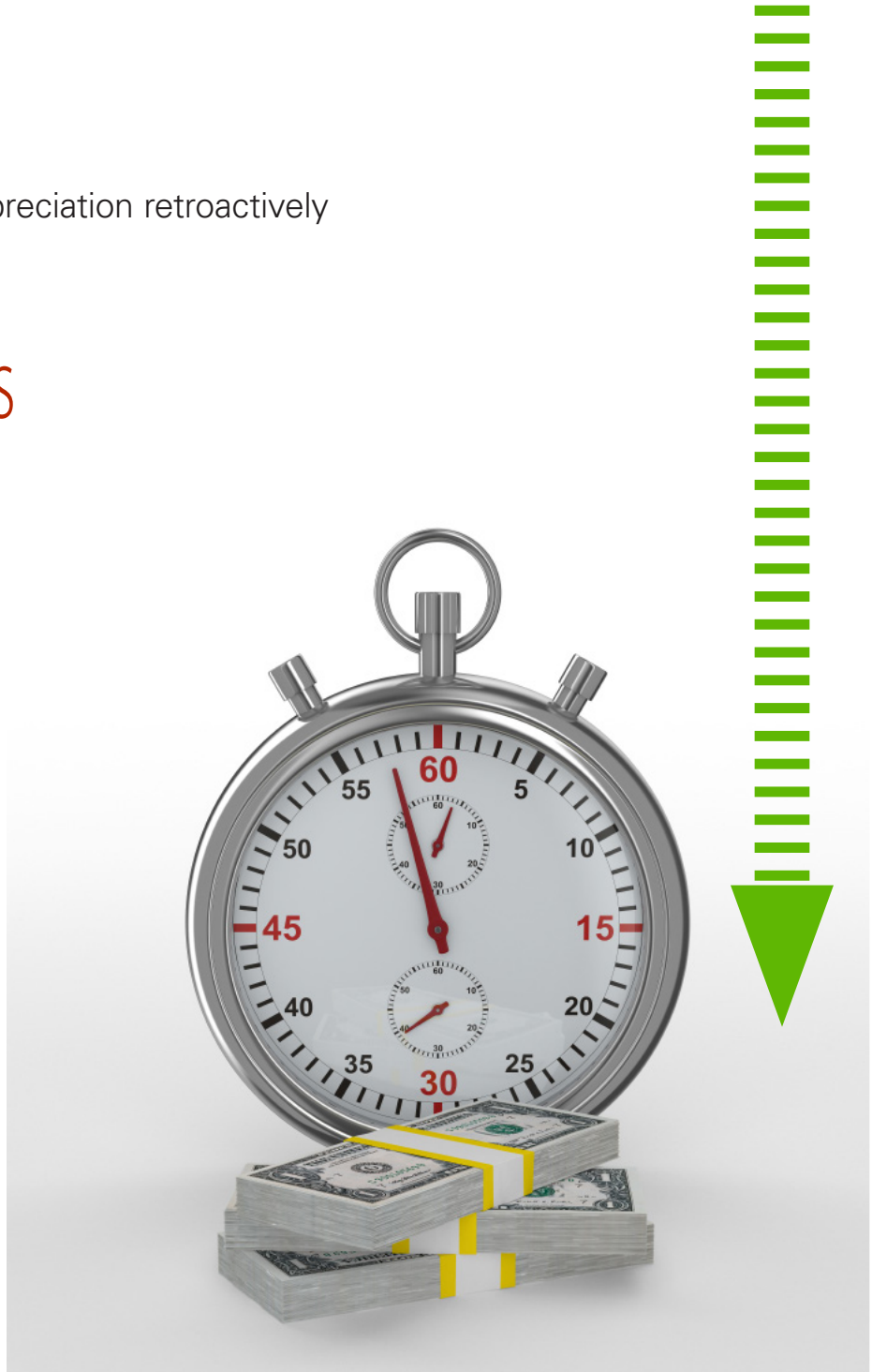
Congress acts to reinstate bonus depreciation retroactively to Jan. 1, 2014.



Repairing older assets

For tax years beginning in 2014, new rules are in effect for determining when expenditures can be deducted as a repair expense and when they must be treated as the cost of a new asset subject to depreciation. All businesses should review their repair/capitalization policies to assure that they are in compliance with the new rules.

Monitoring passive activities

Complex rules govern the tax treatment of business activities in which the owner does not materially participate. If these so-called passive activities produce a loss, that loss may not be currently deductible. If the passive activity is profitable, the income could be subject to the 3.8 percent surtax on net investment income.






If you are the owner of a business, it's a good idea to keep detailed records of the hours you spend working in the business. This record keeping is especially important if you have another full-time job or the potentially passive activity is not your primary business endeavor.

Estate Planning

For 2014, the unified credit for estate and gift taxes has been raised so that the tax applies only to estates greater than \$5.34 million. And the estate tax exclusion is portable, so if you and your spouse have combined estates that do not exceed \$10.68 million, you can avoid the estate tax without the necessity of including language in your will creating a bypass trust.

The annual gift tax exclusion for 2014 remains at \$14,000 per person. Therefore, if you are married, you can gift up to \$28,000 per donee, or recipient, this year without any federal gift tax ramifications by using the gift-splitting rules. Gifting is a good way to reduce your taxable estate and may be an important element of your estate plan.




You may have executed your current will and estate plan without consideration of the increased unified credit amount and the portability feature of the new estate tax law. If so, a review is in order to make sure your assets will be handled in the most tax-efficient manner.

Offshore Account Disclosures

If during 2013 you had a financial interest in, or signature authority over, at least one financial account located outside the United States, and the aggregate value of all your foreign financial accounts exceeded \$10,000 at any time during the calendar year, you must file electronically with the Treasury Department a Financial Crimes Enforcement Network (FinCEN) Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR).

The new Form 114 replaces TD F 90-22.1 and is due to the Treasury Department by June 30, 2014. The form must be filed electronically and is available only online through the BSA E-Filing System website. [Click here to view website.](#)





Tax planning is an ongoing process. Your tax picture can change – sometimes dramatically – during the course of a year, and you need to react accordingly. Implementing thoughtful midyear strategies now may help you lessen the taxes you face in April 2015.

One final thought: Saving taxes is generally a good strategy.

But making a bad business, investment or personal decision just to save some tax dollars is *never* a good strategy.

Although this letter has covered a number of topics, it undoubtedly did not address every issue relating to your specific situation. Our tax advisers are here to offer guidance through the complex maze that is the U.S. tax system and suggest strategies to minimize your tax liability. ✨



The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

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