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2014 YEAR-END TAX PLANNING

HERE WE GO, AGAIN!

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2014 YEAR-END TAX PLANNING: HERE WE GO, AGAIN!

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Here we go, again! As we approach the end of 2014, we are forced, once again, to wait and see what action Congress takes (or doesn't take) in enacting tax legislation before the year's end.

In the words of Yogi Berra, "It's déjà vu all over again."

While Berra was referring to Mickey Mantle's and Roger Maris' repeated barrage of homeruns in the early 1960s, this year-end planning letter is not about anything so adept or exciting. In this case, I am referring to Congress' seemingly annual year-end drama surrounding whether or not they will extend the long list of tax provisions that have either already expired or are set to expire at the end of 2014.

These "Tax Extenders", as they've come to be known, are with us at the end of every year, and will continue to create year-end drama until Congress crafts a permanent solution to the problem. We regularly approach the last day of the year not knowing which provisions shall be extended and which shall die. Like the movie, "Groundhog Day", the end of every year plays out pretty much the same way – at least as far as Congress is concerned.

With that backdrop, let's review a few of the deductions that are currently not available, which may (or may not) return with Congress, after the election. These expiring provisions include the deduction for sales tax instead of state and local income taxes, the above-the-line deductions for tuition and educators expenses, the generous bonus depreciation allowance, the expanded expensing allowances under section 179 for business property (\$500,000 vs. \$25,000), and the ability to make qualified charitable distributions from one's IRAs, just to name a few.

With all these deductions (and more) currently unavailable, what can a taxpayer do to save money before the end of the year? Following are a few ideas to consider:

- If you or a family member will have reached age 70 ½ in 2014 and own either a traditional IRA or have an account in a qualified retirement plan, consider whether it's better to take your first required minimum distribution (RMD) in 2014 or by April 1, 2015. Be aware that, if you wait until next April 1, you will have to take two distributions in 2015. Remember that effective tax planning really needs to encompass at least two years – this year and next.
- If it appears that you will owe income taxes for 2014, consider increasing your tax withholding for the balance of the year, rather than making estimated tax payments. Doing so can help to reduce penalties for underestimating your tax..
- Review your securities holdings before the end of the year for unrealized gains or losses. Now is the time to offset gains you have already taken, as well as any capital gains distributions to be received by year-end, with losers in your portfolio and, possibly, get you to the maximum allowable capital loss deduction available of \$3,000 (\$1,500 for married filing separately).
- This is also a good time to dispose of any nearly-worthless securities with little hope for recovery, so you can claim the loss in 2014.
- If you are self-employed, consider hiring your child. This can shift income to your child who is probably in a lower tax bracket and can allow them to contribute to an IRA.
- If you expect to have losses from a partnership or S Corporation, check to see if you have basis in that entity that will allow you to deduct that loss. If you don't, consider contributing capital to the entity to give you basis.
- A number of tax deductions and credits are subject to phase-outs that are based on adjusted gross income (AGI). On a married filing joint return, some of the phase-out ranges start with AGI under \$100,000. The deductions and credits include certain education based credits, and the Child Tax Credit, as well as deductions for student loan interest and actively managed real estate. Contact us for more information on these.

- Maximize your 401(k) contributions. In addition to the tax deferral, many employers offer to match part of their employees' contributions, so, if you don't take maximum advantage of that opportunity, you are leaving money on the table.

In addition to planning for your income tax, you need to be aware of the effect that the Alternative Minimum Tax (AMT) has on your tax liability. While the AMT is far too complex to cover here, if you have encountered it in the past, you will likely encounter it in the future. Ask us how it affects you.

While you are planning for your income taxes, don't overlook your estate planning. With the lifetime exemption at a very generous \$5.34 million, many people feel that they don't need to engage in estate planning. Nothing can be further from the truth! Estate planning, in this day and age, is much more about retaining control over your assets after you die and much less about saving estate tax.

Finally, it is important to mention the current state of the Affordable Care Act (ACA). Under the ACA, 2014 was the year that both the individual mandate and employer mandate were to take effect. As the implementation of the ACA has progressed, the individual mandate is, indeed, in place, but full implementation of the employer mandate has been delayed. What does that mean?

Under the individual shared responsibility provision, as of 2014, each individual along with each member of their family is required to either (1) have minimum essential coverage, (2) have a valid exemption from the responsibility to have minimum essential coverage, or (3) make a shared responsibility payment when they file their 2014 individual income tax return in 2015.

Perhaps more important to you, our client, is the tax effect of the ACA resulting from the additional Medicare tax on earnings as well as the Net Investment Income Tax (NIIT). Many of you were already affected by one or both of these new, additional taxes on your 2013 income tax returns, while others of you will see it for the first time on your 2014 returns.

Briefly, the additional 0.9% Medicare tax affects those individuals whose earned income exceeds certain thresholds. Earned income consists of wages and self-employment income. The current thresholds for the additional 0.9% Medicare tax are \$250,000 for married taxpayers filing jointly and \$200,000 for single taxpayers.

The NIIT is an additional 3.8% tax on certain net investment income of individuals, estates and trusts that have modified adjusted gross income above statutory threshold amounts (currently \$250,000 for married taxpayers filing jointly, \$200,000 for single taxpayers and \$12,150 for

trusts). In 2013, this additional tax proved significant to many taxpayers. The rules are much too complex to cover in detail here, but we'd be happy to discuss them with you at any time.

Moving back to year-end tax planning, remember that, through careful planning, it's possible that your 2014 tax liability can still be reduced. And, who knows? Maybe Congress will surprise us! Regardless, you shouldn't delay the tax planning process because, the longer you wait, the less likely it is that you will be able to make a meaningful difference. The ideas discussed here are a good starting place for you to begin thinking about your year-end planning, but they are no substitute for personalized professional assistance. Please feel welcome to call us to discuss your personal circumstances. We'd be glad to meet with you or assist you in any other way that we can.

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Ready to explore your year-end tax options?

Contact **Howard Kass** and the tax professionals at Zinner & Co. LLP.

Reach Howard at **216.831.0733** or via email at **hkass@zinnerco.com**.



Howard J. Kass has over 30 years experience and has cultivated particular expertise in individual and business income taxes, tax aspects of real estate investment, gift and estate taxes and tax exempt organizations. Howard applies his extensive knowledge and experience to a diverse client base of individuals and companies including closely held businesses in a variety of industries and ownership structures such as C Corporations, S Corporations, Partnerships, and LLCs. Industries served include real estate, manufacturing, retail establishments, insurance agencies, distributors and service companies.