BLUME KEENEY PLLC

Trusted Tax Advisors

2014 Year-End Tax Planning Guide

2014 YEAR-END TAX PLANNING GUIDE

Over the past few years, taxpayers have been bombarded by news reports, articles, and other communications warning of significant tax law changes on the horizon. The term "taxmegeddon" has even been used to tell the mass public that the tax world as we know it could soon end. Therefore, many taxpayers and tax advisors have become accustomed to planning in an environment full of changes and unknowns.

For the first time in a long time, we do not anticipate any dramatic tax law changes before year-end. Consequently, the inaugural Blume Keeney PLLC Year-End Tax Planning Guide is going to be fairly straight forward. No big surprises. No big dramatic changes. Just a continued focus on solid tax planning and money saving ideas that you should consider implementing before the ball drops at midnight December 31.

So what should you do before year-end? Well, first, read the guide. Or even better yet, don't read the guide and instead give us a call so that we can personally talk with you about the planning opportunities that would most benefit you and what you should do before year end.

TAX PLANNING CHECKLIST FOR INDIVIDUALS

Income Planning

- ☐ Income deferral – When possible, recognize income after year-end. For example, defer bonuses or delay stock option exercises and asset sales.
- ☐ Tax-exempt income – Review investment portfolios to consider exposure to municipal bonds. Not only is the interest tax-exempt, it's also not subject to the 3.8% Net Investment Income Tax (NIIT).
- ☐ 0% tax rate income – For taxpayers in the 10% or 15% income tax brackets, long-term capital gains and qualified dividends are taxed at 0%. So if you are in one of these tax brackets, consider capital gain harvesting before year-end to increase basis within a portfolio. Note that wash sale rules that limit capital losses, do not apply to gains.
- ☐ Suspended passive losses – Review your passive loss carryovers if selling real estate or business interests. Losses from a passive activity that are not allowed to offset current income due to the passive loss rules are suspended and carried forward. Disposing of the passive activity with suspended losses allows the current year losses and suspended losses to offset income.
- ☐ Passive income – Explore ways to increase the level of participation with passive entities or rental properties to avoid the additional NIIT. Income from passive activities may be subject to the NIIT 3.8% surtax in addition to income tax. However, this can be mitigated if taxpayers can meet one of the tests for material participation.

Single	Married Filing Jointly	Marginal Rate	Long-Term Capital Gain and Qualified Dividends Tax Rates
$0 to $9,075	$0 to $18,150	10%	**0%**
$9,076 to $36,900	$18,151 to $73,800	15%	**0%**
$36,901 to $89,350	$73,801 to $148,850	25%	15%
$89,351 to $186,350	$148,851 to $226,850	28%	15%
$186,351 to $405,100	$226,851 to $405,100	33%	15%
$405,101 to $406,750	$405,101 to $457,600	35%	15%
Over $406,750	Over $457,600	39.6%	20%

TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Income Planning (continued)

- [ ] IRA conversion strategy – Evaluate your IRA and anticipated income level for 2014 to determine if a portion (or all) of your IRA should be converted to a Roth IRA. This conversion will create additional taxable income in the current year but the distributions from the converted account will be income tax free in future years.
- [ ] Installment sale – Consider deferring gain recognition on assets sold on installment until the tax year when proceeds are actually received.
- [ ] Like-kind exchange – Consider using a like-kind exchange on the sale of rental or business property to defer taxable gains.
- [ ] Capital loss harvesting – Review your portfolio to ensure that capital losses have been taken (when appropriate) to mitigate capital gains. Capital losses can be used to offset capital gains, and unused losses are carried forward to offset future capital gains. However, the wash sale rules impact the benefit if the same asset is reacquired within a specified time period.
- [ ] Long-term capital gains and qualified dividends – Review investment portfolios to take advantage of the preferential income tax rate for long-term capital gains and qualified dividends.
- [ ] Child's income – Transfer income producing assets to kids to utilize their (generally) lower tax bracket. However, the Kiddie Tax could eliminate a majority of the tax savings if the child is under age 18, or under age 24 and a full-time student.

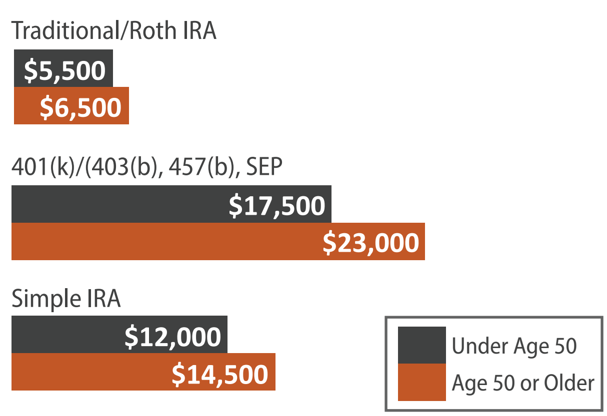
Top Tax Rates for 2014	
Ordinary earned income	39.6%
Net investment income and passive income[1]	43.4%
Long-term capital gains	23.8%[2]
Qualified dividends	23.8%[2]
Estate and gift tax	40%

(1) Includes interest, dividends, royalties, net rental income, and other passive income
(2) Includes 3.8% surtax on the lesser of a) net investment income or b) adjusted gross income over the applicable threshold of $200,000 for single taxpayers, $250,000 for joint taxpayers, or $11,950 for estates and trusts.

Deduction Planning

- [ ] Retirement plan contributions - Certain plans, such as 401(k) and Keogh plans, allow larger tax deductions than IRAs or SEP IRAs, but they must be established by year-end.
- [ ] Deduction phase outs – Consider bunching two years of deductions into one year by accelerating or deferring deductions, like medical expenses, taxes, and contributions to exceed the phase outs and maximize the deduction benefit.
- [ ] Health Savings Account (HSA) contributions – If eligible, contributions to an HSA are tax deductible, and eligible distributions are tax-free.

Retirement Plan Contribution Limits for 2014



TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Deduction Planning (continued)

- ☐ Charitable contributions - Consider giving appreciated property to a charity instead of cash to get a deduction for the fair market value and avoid paying tax on the capital gain. Also, depreciated investment assets should be sold first, and the cash donated to charity to get the benefit of the capital loss.
- ☐ Charitable miles – A deduction of $0.14 per mile is allowed when using a vehicle for charitable purposes, plus parking fees and tolls.
- ☐ Timing of charitable contributions – Credit card charges and checks mailed on or before December 31, though not paid until 2015, are still considered deductions in 2014.
- ☐ Substantiation of charitable contributions – The IRS has recently begun disallowing charitable contribution deductions when taxpayers are unable to completely meet the substantiation requirements. When giving over $250 to charity, be sure to get an acknowledgement letter from the charity. It would even be advisable to take a photo of non-cash items contributed.
- ☐ Sales tax deduction and Qualified Charitable Deduction (QCD) – These popular deductions have expired and have not yet been extended into 2014.

<table>
<tr><th rowspan="2">VALUE</th><th colspan="3">CHARITABLE CONTRIBUTION REQUIREMENTS</th></tr>
<tr><th>Cash Donations</th><th>Non-Cash Donations</th><th>Publicly Traded Stock Donations</th></tr>
<tr><td>$249 or less</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td><td>Maintain records to support contribution</td></tr>
<tr><td>$250 - $500</td><td rowspan="4">Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td><td>Maintain written acknowledgement from the charitable organization</td></tr>
<tr><td>$501 - $5,000</td><td>In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td><td rowspan="3">In addition to maintaining acknowledgement letter, must report date that property was acquired, adjusted cost basis, and method of acquisition</td></tr>
<tr><td>More than $5,000</td><td>In addition to requirements above, must obtain an appraisal from a qualified appraiser</td></tr>
<tr><td>$500,000 or greater</td><td>Obtain an appraisal from a qualified appraiser for assets other than cash or publicly traded securities AND attach a copy of the appraisal to your return along with a confirmation letter from the charity</td></tr>
</table>

TAX PLANNING CHECKLIST FOR INDIVIDUALS (continued)

Estate and Gift Planning

- ☐ Annual exclusion – Every taxpayer has a $14,000-per-recipient annual exclusion from gift tax. Combined with a spouse's annual exclusion, a married couple can give $28,000 per recipient.
- ☐ Lifetime exemption - The lifetime exemptions for gift and estate tax is $5.34 million (this is in addition to the $14,000-per-recipient annual exclusions for lifetime gifts referenced above). The gift tax rate for gifts greater than $5.34 million is 40% for 2014.
- ☐ Gift considerations – Annual giving above the $14,000 annual exclusion amount can have a significant impact on long-term estate tax planning (especially for Washington state residents). Consider evaluating your gifting options before year-end.
- ☐ Charitable gifts – Taxpayers with significant charitable intent may be able to receive both an income tax benefit and an estate tax benefit with the proper planning.
- ☐ Interest rates – Applicable federal rates (AFRs), minimum interest rates that are required to be charged by related parties, continue to be at historical lows. In some cases, it may be possible to refinance loans between related parties to reduce interest payments.

Affordable Care Act – Health Insurance

- ☐ Premium tax credits – Taxpayers with household incomes below four times the federal poverty limit ($45,960 for an individual, $94,200 for a family of four) may qualify for a premium tax credit or a premium subsidy.
- ☐ Substantiating health coverage – Beginning in 2015, employers, insurers, and other third parties will be required to provide individuals with either Form 1095-B or Form 1095-C reporting and substantiating their coverage for the calendar year. For 2014, this disclosure reporting is not required for employers, insurers, and other third parties. Therefore, for 2014, individuals must maintain their own documentation and support to verify essential coverage including the terms of the policy, whom it covers, and the period of that is covered. This will need to be reported on all individual's 2014 income tax returns.
- ☐ Reporting – A new Form 1095-A will be issued to anyone enrolled in health insurance through the Health Insurance Marketplace. This form will be needed to complete the Form 1040. The return will include applicable penalties and applicable credits as part of the total tax due.
- ☐ Penalties - The penalty for not obtaining qualifying health coverage is the greater of $95 per person or 1% of household income in 2014, and $325 per person or 2% of household income in 2015. Maximum penalties do apply.
- ☐ Required insurance - All US citizens and legal residents are now required to have qualifying health insurance. There are some exemptions, primarily due to financial hardship or short-term gaps in coverage.

TAX PLANNING CHECKLIST FOR TRUSTS

Tax Planning Checklists for Trusts

- [ ] Distributions – Trusts have a low AGI threshold of $12,150 for the NIIT so most undistributed income in a trust will be subject to the additional tax. Trustees should consider maximizing distributions to beneficiaries, and consider strategies to distribute capital gains.

- [ ] Income sources – Similar to the tax planning for individuals, trustees should evaluate the role of tax-exempt income in the trust's investment portfolio given the 3.8% NIIT on taxable income.

- [ ] Passive activities – New guidance emerged in 2014 regarding the application of NIIT on a trust's business and/or real estate income. In light of this new guidance, consider the role of a trustee in the management of the trust assets and whether additional steps can be taken to mitigate this additional tax.

If taxable income is:	The tax is:
Not over $2,450	15% of the taxable income
Over $2,450 but not over $5,700	$367.50 plus 25% of the excess over $2,450
Over $5,700 but not over $8,750	$1,180 plus 28% of the excess over $5,700
Over $8,750 but not over $11,950	$2,034 plus 33% of the excess over $8,750
Over $11,950 *	$3,090 plus 39.6% of the excess over $11,950

*Additional 3.8% tax on investment and passive income in excess of $11,950

TAX PLANNING CHECKLIST FOR BUSINESSES

Tax Planning Checklists for Businesses

- ☐ Form W-2 - Employers are required to include the annual cost of health plan coverage provided to an employee. This is for information reporting purposes only and doesn't affect the employee's taxable income.
- ☐ Limitation on health FSA reimbursements - The maximum health FSA reimbursement may not exceed $2,500 per year. Employers have until December 31, 2014, to amend their health FSA plans to reflect the new limits.
- ☐ Buy-sell agreements – Buy-sell agreements can act as a will for businesses. Agreements should be reviewed and updated regularly. This is especially important in any business with multiple owners.
- ☐ Section 179 - The section 179 depreciation deduction for qualifying assets acquired in 2014 is only $25,000. This depreciation deduction begins to phase out once total depreciable assets purchased during the year exceed $200,000. There is a possibility that Congress will increase the deduction and the phase out threshold prior to year-end.
- ☐ Bonus depreciation – The 50% bonus deprecation expired in 2013 and has not yet been renewed by Congress.

MACRS Depreciation Asset Classes

3-Year

Tractor units for over-the-road-use.

5-Year

Autos, computers, and equipment

7-Year

Office furniture and fixtures, farm machinery and equipment

10-Year

Vessels, barges, tugs

15-Year

Certain land improvements

20-Year

Certain farm buildings

27.5-Year

Residential rental property - apartment buildings, single family

39-Year

Non-residential real property - office and commercial

TAX PLANNING CHECKLIST FOR BUSINESSES (continued)

Tax Planning Checklists for Businesses (continued)

- [ ] Family employees – Consider hiring your school-age child to work for your business part-time. Reasonable compensation is deductible, reducing your self-employment income. No Social Security or Medicare tax is due on the child's earnings if they are under age 18 and the business is not a corporation. Also, the child could make a contribution to a traditional or Roth IRA.
- [ ] Form 1099 – New guidance has clarified the requirement for issuing Form 1099. Any non-corporate vendor paid over $600 must be issued the Form 1099.
- [ ] Small business health care tax credit for small employers - Small employers, generally those with fewer than 25 full-time equivalent employees with average wages of $50,000 or less, are allowed a maximum credit for 50 percent of premiums paid for employees health insurance. Insurance must be purchased through the Small Business Health Options Program (SHOP) or qualify for an exception to the requirement.
- [ ] Employer-provided child care credit - Employers can claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services.
- [ ] Research and development credit - Companies that develop new or improved products or processes may be able to benefit from research tax credit incentives. The research tax credit law expired at the end of 2013 but has historically been extended, and it's expected to be extended again as part of the "extenders bill" being considered by Congress.

Regardless of the fact that tax laws are not changing significantly this year, there continues to be opportunities to plan for future financial success. Decisions you make this year could have a direct impact on your long-term financial security, so it pays to plan and take action now to ensure your goals can be achieved.

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