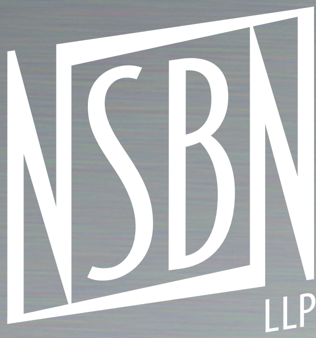

ADVANTAGE

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2014 - 2015 Tax Update: Another Year For Tax Breaks

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Individual Taxation

Many of the tax breaks which expired at the end of 2013 have been retroactively reinstated for the 2014 filing year. However, taxpayers must still deal with the uncertainty of the law for 2015 and beyond. These tax breaks include:

- Deduction for state and local sales tax
- Exclusion of up to $2 million in mortgage debt forgiveness on a principal residence
- Above the line deduction for qualified higher education expenses
- Deduction for mortgage insurance premiums
- Tax-free distribution by individuals age 70 1/2 or older of up to $100,000 transferred directly from an IRA to a charitable organization

The current individual income tax rates structure will most likely stay in place for 2015. The same goes for the current tax treatment of capital gains and qualified dividends. Following the enactment of the American Tax Relief Act, Congress implemented a permanent "patch" on the Alternative Minimum Tax (AMT), providing increased exemption amounts and allowing the use of nonrefundable personal credits against regular tax and AMT tax.

Higher income taxpayers must be aware of the 3.8% tax on net investment income (which includes dividends, rents, interest, passive activity income, capital gains, annuities and royalties) and the additional 0.9% Medicare tax that applies to individuals receiving wages and/or self-employment income in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately).

Taxpayers facing large capital gains can consider donating long-term appreciated capital gain assets to charitable organizations. By doing so, they will avoid both the capital gains tax and the 3.8% net investment income tax that would have been incurred if the assets had been sold. Subject to some limitations, the full fair market value of the appreciated assets will qualify for a charitable deduction.

Right now is also a good time to review any existing gift plans. For 2014 and 2015, individuals can make tax-free gifts of up to $14,000 per recipient. Additional gifts can be made using the lifetime gift exclusion, which is $5.34 million for 2014 and $5.43 million for 2015. Future exclusions will be indexed for inflation. There is also an important provision that allows individuals to make unlimited tax-free gifts for the qualified medical and/or tuition expenses of another person. The qualified medical or tuition expenses must be paid directly to medical or educational institutions.

Gift & Estate Tax Limits	2014	2015
Gift Tax Annual Exclusion	$14,000	$14,000
Gift, Estate And GST* Lifetime Exemption *Generation-Skipping Transfer Tax	$5,340,000	$5,430,000

College Access Tax Credit

California recently enacted the College Access Tax Credit in an effort to boost the diminishing resources used to provide Cal Grants to low income college students. For tax years beginning January 1, 2014 and before January 1, 2017, the credit may be claimed by taxpayers who make cash contributions to the College Access Tax Credit Fund and who receive credit certification and allocation from the California Education Facilities Authority (CEFA). Applications are available at the California State Treasurer website (www.treasurer.ca.gov/cefa/catc/index.asp). The Treasurer takes up to 10 days to process an application.

Taxpayers that claim the California credit are eligible to claim a charitable contribution deduction on their federal tax return, but are prohibited from claiming such a deduction on their California tax return. The amount of tax credit that can be claimed is:

- For the 2014 taxable year, 60% of the amount contributed that is certified and allocated by CEFA
- For the 2015 taxable year, 55% of the amount contributed that is certified and allocated by CEFA
- For the 2016 taxable year, 50% of the amount contributed that is certified and allocated by CEFA

Unused credits can be carried forward up to six years.

The Achieving a Better Life Experience (ABLE) Act

Under new legislation, the Achieving a Better Life Experience (ABLE) Act allows a tax-free savings account of up to $100,000 to pay for disability related expenses, without affecting eligibility for government programs like Medi-Cal.

Year-End Planning

Although the tax laws have not changed much from 2013, it is still advisable for taxpayers to re-evaluate their situation if certain circumstances have resulted in changes to their overall tax picture. This includes large fluctuations in income, change in marital status, or purchases of property.

By taking certain steps before the end of 2014, individuals may be able to minimize their taxes through the timing of income and expenses. If they anticipate being in a lower tax bracket in 2015, they will benefit by deferring as much income as possible by postponing year-end bonuses, rents collection and receipts for services until 2015, as well as by accelerating certain deductions in 2014. If taxpayers itemize deductions, they can prepay real estate taxes and mortgage interest. Taxpayers who itemize deductions and do not expect to be subject to AMT in 2014 can pay the entire property tax bill in 2014 instead of paying the second installment in 2015. Taxpayers who itemize can also pay the January home mortgage payment in December. However, they should check with their mortgage company about the cut-off date for inclusion on IRS Form 1098 for Mortgage Interest to minimize matching problems. Increasing charitable contributions is another avenue for accelerating itemized deductible expenses.

Additional Year-End Strategies

- Calculate capital gains and losses for the year. If there is an overall loss, taxpayers may want to sell appreciated securities as part of a portfolio rebalancing strategy. If there is an overall gain, they may benefit from selling securities in order to generate a loss to offset the gains. Taxpayers should be careful not to repurchase the same securities that were sold at a loss within 30 days before or after the sale to avoid "wash sale" limitations.

- Set up and contribute to a retirement plan. In order to be deductible in 2014, some plans (401(k)), must be set up prior to the end of the year. Other plans can be set up until April 15, 2015 (IRA) or as late as October 15, 2015 with a valid extension, but are subject to some limits (SEP-IRA). Taxpayers can contribute up to $5,500 to an IRA or ROTH IRA for 2014. Individuals age 50 and older can make "catch-up contributions" of up to $1,000, for a total contribution of up to $6,500. If a traditional IRA was previously converted to a Roth IRA and the account value has decreased, please contact us to consider undoing the conversion and reconverting back later.

Retirement Plans: Maximum Allowable Contributions	2014	2015
401(k)	$17,500	$18,000
401(k) if 50 or older	$23,000	$24,000
IRA - Roth & Regular	$5,500	$5,500
IRA - Roth & Regular if 50 or older	$6,500	$6,500
SEP-IRA	$52,000	$53,000

IRA Rollover Strategies

Typically, any amount distributed from an Individual Retirement Account (and Individual Retirement Annuities), collectively, "IRAs", will not be included in the gross income of the recipient to the extent that the amount is contributed to another retirement plan. This contribution to another retirement plan is called a "rollover contribution" if the owner receives a check and does not use a trustee-to-trustee transfer. The Internal Revenue Code provides that, in order to receive tax-free rollover treatment, the rollover contribution generally must be made by the 60th day after the recipient receives the distribution.

Effective January 1, 2015, an individual is permitted to make only one rollover contribution in any one year period, regardless of how many IRA accounts they hold. Thus, if a taxpayer has two IRAs at two different banks, and they roll over one of the IRAs, they can no longer roll over the second IRA during the same year, regardless of where it is held. Please be aware that IRS Publication 590 has an example of this situation, however it is incorrect.

The one-rollover-per-year limitation does not affect the ability of an IRA owner to transfer funds via a direct trustee-to-trustee transfer from one IRA trustee directly to another IRA trustee. Because there is no distribution to the owner, the transfer is tax-free. In addition, because it is not considered to be a rollover, it is not affected by the 1-year waiting period between rollovers.

The Affordable Care Act

The Affordable Care Act created substantial health care reforms for individuals. Beginning January 1, 2014 all individuals are required to either have health care coverage, an exemption from the requirement to have coverage, or make a penalty payment when filing their 2014 tax return. For 2014, the penalty is the greater of $95 or 1% of household income, limited to the cost of health insurance premiums. In 2015, the penalty increases to the greater of $325 or 2% of the household income. The penalty for dependents under 18 is one half of the penalty for an adult individual.

Individual mandated coverage can be satisfied through employer provided health insurance, Medicare or Medi-Cal, the purchase of a private health care plan, or through open enrollment in the state health insurance marketplace. During the 2015 open enrollment period, November 15, 2014 - February 15, 2015, individuals can renew their existing coverage or choose a new plan. Be aware that insurance companies will be required to report the health coverage provided to a policy holder on Form 1095-B starting in 2015.

Standard Mileage Rates for 2015

For calendar years 2014 and 2015, the standard mileage reimbursement rates for the use of a car, van, pickup or truck will be:

Standard Mileage Reimbursement Rates	2014	2015
Business Miles	$0.56	$0.575
Medical Or Moving Miles	$0.235	$0.23
Charitable Miles	$0.14	$0.14

Business Taxation

Uncertain Incentives

Businesses, just as individuals, are affected by the tax incentives that have been renewed for 2014, but have an uncertain future for 2015 and beyond. Businesses could benefit from purchasing and placing into service necessary business property to take advantage of the current accelerated depreciation. On December 31st, many business-friendly rules will expire once again. These include:

- 15 year straight-line cost recovery for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property
- Research tax credit
- Special rules for 100% gain exclusion that applies to qualified small business stock
- 50 % bonus first year depreciation for most new machinery, equipment, and software
- Increased limit of $500,000 for Section 179 deduction

Under the current Section 179 provision, the deduction limit for qualifying assets reverts back to $25,000 for 2015 and the deduction begins to phase out when total depreciable assets purchased during the year exceed $200,000.

The Affordable Care Act

The Affordable Care Act also created new requirements for businesses. Beginning January 1, 2015, applicable large employers (those that employ 100 or more full-time equivalent employees) must provide insurance coverage for at least 70% of full-time equivalent employees that meet certain minimum requirements, or face a penalty. In 2016, employers with a least 50 full-time equivalent employees are subject to this mandate. Some small employers (those that employ no more than 25 full-time equivalent employees) may receive tax credits for providing insurance to their workers. Starting in 2015, employers are required to report coverage information both to the employee and to the IRS on Form 1095-C. The new form must be provided to employees annually, no later than January 31st. For the 2015 tax year, it must be provided to employees no later than January 31, 2016 and to the IRS no later than February 28, 2016.

New IRS Tangible Property Regulations and Their Impact on Taxpayers

The IRS recently released the final Tangible Property Regulations (TPRs) and related method changes effective for tax years beginning on or after **January 1, 2014**. As a result, taxpayers may need to revise their current capitalization policy to comply with these new regulations. They may also be able to take advantage of new write-off opportunities. Whether the form of business is a corporation, a partnership, an LLC, a sole proprietorship (Schedule C on an individual return), or a rental property (Schedule E on an individual return), these new regulations apply.

If a taxpayer currently owns, purchases or acquires tangible property for business or rental purposes, these new regulations will require them to take action. Tangible property, such as buildings, land improvements, equipment, machinery, materials and supplies are subject to these requirements.

The IRS sought to provide taxpayers with various rules to better distinguish capital expenditures from supplies, repairs, maintenance, and other deductible expenses. These final TPRs also create a number of new safe harbors. The TPRs include the following new provisions:

- New rules for determining a Unit of Property (UoP) and the requirement to apply the improvement rules separately to a building structure and each building system
- A de minimis safe harbor for purchases of tangible materials and supplies and/or assets if the amount per item meets the new rules (either $5,000 per item for taxpayers with an Applicable Financial Statement (AFS) or $500 per item for taxpayers without an AFS)
- A safe harbor for small taxpayers to elect not to capitalize improvements to an eligible building property (limitation the lesser of 2% of the unadjusted basis of the building or $10,000)
- A safe safe harbor for routine maintenance for buildings that all taxpayers can employ
- A new partial asset disposition election (to dispose of building assets that have been replaced)
- A new rule that clarifies when to write off removal costs related to a disposition

Since the final regulations are required to be adopted by taxpayers no later than the 2014 tax year, a capitalization policy must be in place by December 31, 2014 in order to take advantage of the annual de minimis safe harbor.

As a requirement of these TPRs, most taxpayers will need to modify their internal processes to comply with the new rules, and will need to file one or more applications for accounting method changes (IRS Form 3115) for their 2014 tax year. Not only will taxpayers be required to file one or more Form(s) 3115 for each accounting method change, this filing will also need to be done **for each separate entity, trade or business.**

As these regulations affect virtually all taxpayers with tangible property, we strongly recommend a thorough review of your tax depreciation schedule.

Crowd Funding

The latest sensation of raising money through crowd funding, such as Kickstarter.com, Indiegogo.com, or Crowdfunder.com, has become increasingly popular. However, individuals and businesses should not neglect the potential tax implications of crowd funding. Although the IRS has not published specific guidance on the tax consequences of receiving money through crowd funding, funds raised through this manner are either income, a capital investment, or a gift. If the money is spent on starting and/or running a business, it must be reported as income. Some crowd funding projects are intended to raise money for families in crisis, an individual's medical bills, or funeral expenses. If the contribution is made to a 501(c)(3) organization, then it is tax deductible to the donor. However, for instances when the contribution is not made to a tax-exempt nonprofit organization, then it is treated as a nondeductible gift to the donor. In fact, the giver may be subject to gift tax if the donation is large enough. For 2014 and 2015, individuals can make annual tax-free gifts of up to $14,000 per recipient.

Contact us to address your individual situation and for assistance with tax planning.

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