McRuer CPAs

2014 Year-End
Tax Planning Guide

Greetings from all of us at McRuer CPAs:

It's time to review year-end tax strategies that may help reduce your tax bill or prevent you from paying more than you owe. The 2014 tax year has been marked by more questions and unresolved tax issues than in years past.

The current uncertainty especially about expiring "temporary" tax provisions, income tax deductions and IRA conversions leads us to send a precautionary "yellow" signal as we stay alert to react to any last minute updates.

Now is the Time to Consider an Overall Financial Checkup

Your window of opportunity to take action regarding your 2014 tax obligation is rapidly closing, but remember, this is also a very good time to consider choices about your individual and/or your business tax strategies for the 2015 tax year.

If you haven't already scheduled your year-end tax planning strategy session, please contact us right away as we work to help you choose the best tax strategies.
Call us at: 816.741.7882.

We look forward to serving you with your upcoming 2014 individual and/or business tax filings. Please call us with any questions you may have.

Sincerely,

Scott McRuer

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Managing Member
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Beware of Expiring Tax Breaks

More than 50 popular tax provisions referred to as "extenders" expired at the end of 2013 and it's uncertain how many, if any, may be retroactively reinstated and extended before the end of the year. In the past eight years, Congress has extended these provisions annually on a short-term basis. Yet, there are many hot political issues to be considered and so far the tax provisions have not received the attention needed to ensure action will be taken.

Without legislative action, individuals will lose benefits like the ability to deduct state and local sales taxes. Businesses will also lose the ability to receive a credit for research activities or be able to deduct one-half the cost of new business equipment.

Here are some of the most frequently used tax breaks that have expired and are in danger of not being extended for use in the 2014 tax year:

Expired for Individuals:

- Election to deduct state and local sales taxes
- Tax-free charitable IRA distributions
- $250 above-the-line teacher expenses deduction
- Above-the-line tuition deduction
- Withholding exception for interest-related RIC dividends

Expired for Businesses:

- Credit for research and development (R&D) activities
- New markets tax credit
- New business equipment deduction
- The five-year holding period for built-in gains after a S-Corporation conversion
- 15-year cost recovery for qualified restaurant buildings and improvements, qualified retail improvements and qualified leasehold improvements
- Work opportunity tax credit
- Alternative fuel credit

Should Congress extend the above deductions and more at the last minute, be prepared to act fast. Contact us with any questions you may have concerning your options or other tax deductions you may have used in the past to determine if they have expired.

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Income Taxes

In 2014, some individuals will benefit from inflation adjustments to the thresholds for applying income tax rates, higher standard deduction amounts, and higher personal exemption amounts.

Alternative Minimum Tax (AMT)

Watch out for the AMT, which applies to both individuals and many corporations. A decision to accelerate an expense or to defer an item of income to reduce taxable income for regular tax purposes may not always save taxes because it may subject the taxpayer to the AMT. Consider whether there is a benefit to accelerate interest payments, real estate taxes, and state and local income taxes, where allowed. Consulting income, self-employment income and bonuses may be deferred providing a possible benefit.

Low-Taxed Dividend Income

Qualified dividend income continues to be taxed at the same favorable tax rates that apply to long-term capital gains. Where possible, converting investment income (which is taxable at higher regular rates) into qualified dividend income can achieve tax savings and result in higher after-tax income. However, the 3.8% surtax on net investment income may apply.

Capital Gains Taxes

Long-term capital gains taxes continue at the same rates:

- 0% if the taxpayer is below the 15% income tax bracket
- 15% if the taxpayer is in the 15% income tax bracket but below the 39.6% income tax bracket
- 20% if the taxpayer is in the 39.6% income tax bracket

IRAs: Tax Saving Contributions

Traditional IRAs or 401(k)s offer tax savings both short term and long term. It's never too late to increase contributions to a retirement account. Contributions reduce taxable income when you make them and you aren't obligated to pay taxes until you withdraw the money when you retire. The 2014 contribution limits are $17,500 for a 401(k) and $5,500 for an IRA. The limit is increased to $23,000 for a 401(k) and $6,500 for an IRA if you are aged 50 or older and qualify for a "catch-up" contribution.

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IRAs: Reconsider the Roth Rollover

Converting a traditional IRA into a Roth IRA is popular and can result in tax savings and more choices when one retires. The rollover allows you to pay taxes on the conversion in exchange for no taxes in the future when qualified withdrawals are made. Because of the shaky economy, if you made a conversion this year, you may want to have us re-examine the rollover. If the value of your IRA account went down, you have until your extended filing deadline to reverse the conversion. You will be able to perform the conversion at a later time.

IRAs: Charitable Contributions and RMDs

A tax break for charitable contributions from an IRA in 2013 is in danger of not being extended for 2014. Taxpayers may want to consider deferring until year-end their required minimum distribution (RMDs) for 2014 in order to take advantage of this tax break should Congress extend this deduction at the last minute. For 2013 (but not yet for 2014) individual taxpayers who were at least 70-1/2 years old could contribute to charities directly from their IRAs. These contributions satisfied the 2013 RMD without having to include these amounts in gross income. For some taxpayers, due to the interplay of marginal tax rates and limits on itemized deductions, this planning strategy resulted in less tax than would have occurred by including the RMD in gross income and deducting the contribution as an itemized deduction.

Gift Tax Exclusion

You are able to have a new annual gift tax exclusion every year. In 2014, you are able to give up to $14,000 to as many people as you want free of estate or gift tax. If you combine gifts with a spouse, you can give up to $28,000 per beneficiary per year. Consider gifting to adult children and grandchildren.

New Home Office Deduction

If you use your home as your principal place of business, you can deduct some of the cost of your home through the safe harbor deduction. This also applies if you use your home to meet clients and customers during normal business hours or your office is a separate structure not attached to your home. The IRS has a new safe harbor this year that allows you to deduct up to $5 per square foot of home office space to a total of no more than $1,500 per year.

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State and Local Sales Tax Deduction

If you itemize deductions (and Congress does extend this deduction for 2014) you can elect to deduct state and local sales tax instead of state income taxes. This is valuable if you live in a state without income tax, but can also provide a bigger deduction in other states if you made big purchases subject to sales tax such as a car or a home.

The IRS also provides a standard sales tax deduction table to calculate the deduction amount based on income, family size and local sales tax rates. You may add the tax from the large purchases onto the standard amount. If you have already paid enough sales tax to qualify for the standard deduction, you may consider making planned large purchases before the end of the year to receive a tax benefit.

Withholding

This is a good time to check your withholding and estimated tax payments while you have time to fix the problem or prepare for a higher tax bill. If you're facing an underpayment penalty, consider updating your withholding regarding your salary and any year-end bonuses.

Job Search Expense Deduction

If you have been searching for a job this year, you may qualify for a tax break if you itemize deductions. You are allowed to deduct job search expenses such as employment agency fees, travel, preparation and mailing of portfolios and resumes. You must be seeking a job within your current occupation. You may deduct these expenses only if your total miscellaneous itemized deductions do not exceed 2% of your adjusted gross income.

Business Tax Considerations

Expensing Deduction (Section 179)

Unless Congress changes the rules, beginning in 2014 the maximum amount that may be expensed is $25,000, phased out dollar-for-dollar once total fixed assets purchased exceeds $200,000.

For 2013, the maximum amount that could be expensed was $500,000 and the phase-out didn't begin until total assets purchased exceeded $2 million. However, despite what Congress does (or doesn't do) to adjust the limits for 2014, some businesses may be able to purchase necessary machinery and equipment at year-end and currently deduct the cost under a "de minimis" safe harbor election in the capitalization regulations.

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Deduction for Qualified Production Activities Income

Taxpayers can continue to claim a deduction, subject to limits, for 9% of the lesser of: the taxpayer's "qualified production activities income" for the tax year (i.e., net income from U.S. manufacturing, production or extraction activities, U.S. film production, U.S. construction activities, and U.S. engineering and architectural services), or the taxpayer's taxable income for that tax year before taking this deduction into account. This deduction generally has the effect of reducing the taxpayer's marginal rate and therefore should be taken into account when making decisions regarding income shifting strategies.

Net Operating Losses and Quick Refund Claims

Businesses with losses this year may be able to file a quick net operating loss carryback claim to receive a cash refund. This may be of particular value to financially troubled businesses that could benefit from a fast cash infusion.

We want to work with you as your trusted advisors and tax planning strategists to make certain you receive the tax deductions and tax credits for which you qualify. If you have any questions about the above tax information and how it may apply to your overall 2014 individual and/or business tax return, please don't hesitate to contact us.

We look forward to visiting with you and appreciate your continued trust in our accounting and tax preparation team at McRuer CPAs.

Thank you.

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