2014 TAX PLANNING

12/9/13

It's Year-End Tax Planning Time

As the end of the year approaches, we know you are busy with holidays, family, and travel, but it is also a good time to do some last minute tax planning. As a courtesy, we want to provide you with a few eleventh-hour tax tips you may find useful. Although tax planning is rarely fun, these strategies could help you keep more of your hard earned money.

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2014 Tax Planning

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INTRODUCTION

Year-end tax planning is never fun, but we're glad not to have a repeat of last year's Fiscal Cliff drama. At the end of 2012, investors and taxpayers faced uncertainty about an extension of the Bush-era tax increases and potentially higher tax burdens in 2013. These uncertainties, combined with eleventh hour debates in Washington, led to significant anxiety at the end of 2012.

In the end, the American Taxpayer Relief Act of 2012 (ATRA) addressed the fiscal cliff by instituting a smaller range of tax increases as compared to the wholesale expiration of the Bush tax cuts. While most Americans will not see significant increases in their federal taxes in 2013, the wealthiest taxpayers will incur higher marginal income tax and capital gains taxes, as well as the phase out of certain exemptions.[1]

If you're concerned about owing Uncle Sam this year, there may still be some last-minute moves that you can make to lower your tax burden. While our specialty lies in wealth management, we have worked with our CPA friends to compile these tips for you. Before acting on any of the advice in this communication, we suggest you consult with your personal tax professional. If you don't have an accounting professional that you enjoy working with, please let us know and we will introduce you to one of our trusted associates.

The IRS recently announced its inflation adjustments for tax year 2014 and they are briefly summarized below:

Federal Income Tax Brackets 2013-2014			
		2013	2014
25%	Single	$36,251 - $87,850	$36,900 - $89350
	Joint	$72,501 - $146,400	$73,800 - $148,850
28%	Single	$87,851 - $183,250	$89,351 - $186,350
	Joint	$146,401 - $223,050	$148,851 - $226,850
33%	Single	$183,251 - $398,350	$186,351 - $405,100
	Joint	$223,051 - $398,350	$226,851 - $405,100
35%	Single	$398,351 - $400,000	$405,101 - $406,750
	Joint	$398,351 - $450,000	$405,101 - $457,600
39.6%	Single	Over $400,000	Over $406,750
	Joint	Over $450,000	Over $457,600

SOURCE: IRS.GOV

ACTIONS THAT COULD BE TAKEN

☐ **Get Organized**
Now is an excellent time of year to get your financial house in order. Gather cash receipts to help you calculate possible deductions and miscellaneous payments. Do you have a hobby or activity that generates income? If so, any losses might also be eligible for deduction. Have you made home improvements? Charitable contributions? Get all of your documentation together early to make your life a little easier in April.

☐ **Contribute the Maximum to Your Retirement Plan**
You have until April 15, 2014 to make IRA contributions for 2013, but the sooner you get your money into the account, the sooner it has the potential to start growing tax-deferred. Making deductible contributions also reduces your taxable income for the year. You can contribute a maximum of $5,500 to an IRA for 2013, plus an extra $1,000 if you are 50 or older. This limit can be split between a traditional IRA and a Roth IRA if you desire, but the combined limit is still $5,500 or $6,500, respectively.[2]

☐ **Check Your IRA Distributions**
You are required to make minimum distributions from your traditional IRA by April 1st following the year in which you reach age 70 ½. Failing to take out enough triggers a 50% excise tax on the amount you should have withdrawn based on your age, life expectancy, and the amount in the account at the beginning of the year.[3]

☐ **Fatten Your 401(k)**
Tax-deferred investing is a smart choice because it allows your money to grow tax-free until you withdraw it. Maximize your 401(k) contributions, up to $17,500 or $23,000 if you will be age 50 or older in 2013.[4]

To avoid headaches and penalties, mark your calendar with the following key dates.

January 15, 2014

4th Quarter 2013 Estimated Tax Payment Due
If you are self-employed or have other fourth-quarter income that requires you to pay quarterly estimated taxes, get them postmarked by January 15, 2014.

April 15, 2014

2013 Individual Tax Returns Due

Individual Tax Return Extension Form Due
If needed, file your request for an extension by April 15 to push your deadline back to October 15, 2014.

1st Quarter 2014 Estimated Tax Payment Due

Last Day to make a 2013 IRA Contribution
If you haven't already funded your retirement account for 2013, do so by April 15, 2014. That's the deadline for a contribution to a traditional IRA, deductible or not, and a Roth IRA. However, if you have a Keogh or SEP and you get a filing extension to October 15, 2014, you can wait until then to put 2013 money into those accounts.

June 15, 2014

2nd Quarter 2014 Estimated Tax Payment Due

September 16, 2014

3rd Quarter 2014 Estimated Tax Payment Due

October 15, 2014

Extended Individual Tax Returns Due
If you got an extension on your 2013 tax return, you need to have it postmarked by October 15, 2014.

Last Chance to Recharacterize 2013 Roth IRA Conversion
If you converted a traditional IRA to a Roth during 2013 and paid tax on the conversion with your 2013 return, October 15, 2014 is the deadline for recharacterizing (undoing) the conversion.

Source: Intuit TurboTax

☐ **Weigh the Benefits of Loss-Harvesting**

In order to avoid paying capital gains taxes, many investors sell off investments such as stocks that have experienced losses in order to help offset any taxable gains have realized during the year. If you think that you may have a heavy capital gains burden this year, talk to your tax professional and financial representative about whether loss harvesting may be a good strategy for you.[5]

☐ **Pay Attention to Your FSA**

This time of year is when you probably need to specify how much salary you'll contribute to your health flexible spending account. In 2013 and 2014, FSAs have annual limits of $2,500 per year. The IRS made an important change to FSA rules for 2014, and will allow employees with "cafeteria plan" FSAs to either carry over up to $500 of their account balance or have a two and a half month grace period. The grace period would allow employees to use money from the previous tax year to cover qualified medical expenses until mid-March of the next year. Employers can allow employees to have either the carry-over provision or the grace period, but not both. Check with your employer to see whether they will allow the new rules to apply in the 2013 tax year.[6]

Remember that tax-free withdrawals can be taken from FSAs for qualified medical, dental, and child-care costs in 2013. Depending on your employer's policies, you may lose any balance left in these accounts at the end of the year, so take advantage now by filling prescriptions early, making medical or dental appointments, or scheduling elective surgeries.

Overview of Important Tax Issues for 2014:

Complications from the October 2013 government shutdown mean that the start of the 2014 tax season will be delayed. According to the IRS, the 2014 season is slated to start between Jan. 28 and Feb. 4, 2014. The filing deadline of April 15 will remain the same.

Healthcare Reform:

2014 will see major changes to healthcare in the U.S. Beginning in 2014, all Americans will be required to maintain health insurance and the IRS is responsible for monitoring compliance.

- Starting in 2014, your W2 will report the value of your health plan to the IRS. This key figure will determine whether you are eligible for tax credits or penalties. You will not need to report this number as income on your tax return.
- Taxpayers without health insurance (or coverage under someone else's policy) will be assessed a penalty starting at $95 or 1% of income (whichever is greater) in 2014. This penalty will rise each year until it reaches 2.5% of income or $695 per person in 2016.

Sources: Reuters, Intuit TurboTax

☐ **Accelerate Your Mortgage Payments**

Unlike rent, which is paid in advance, mortgage payments are made at the end of your occupancy period. This means your January 1 mortgage statement represents interest for December, making it eligible for a tax break this year. By accelerating that payment even by just a day, you get an additional deduction for the interest paid. Unfortunately, you can't make your February, or any other upcoming, mortgage payment early to boost your year-end deduction amounts since write-offs for prepaid interest are generally prohibited. Note:

Accelerating your mortgage payments may not pay off if you expect to be subject to the Alternative Minimum Tax (AMT). If you are unsure, discuss the matter with your tax professional.[7]

- ☐ **Go Green**

  Buyers of plug-in hybrids and electric cars benefit from a tax credit of $2,500 to $7,500, depending on the size of the battery in the car. The credits apply to plug-in hybrids purchased after 2010, though certain models may have been phased out.[8] In addition, energy-efficient home improvements to your principal residence such as installing a heat pump, qualify for credit of 30% of the cost and can be claimed on your 2013 taxes.[9]

- ☐ **Be Charitable**

  A gift to a qualified charitable organization may entitle you to a charitable contribution deduction against your income tax if you itemize deductions. If the gifts are deductible, the actual cost of the donation is reduced by your tax savings. For example, if you are in the 33% tax bracket, the effective cost of a $100 donation is only $67. As your income tax bracket increases, the real cost of your charitable gift decreases, making contributions more attractive for those in higher brackets. For a person in the highest tax bracket, 39.6%, the actual cost is only about $60. Not only can the wealthy afford to give more, but they also receive a larger reward for giving. Typically, charitable donations are capped at 50% of your AGI, though limits of 20% or 30% may apply in some cases.[10]

- ☐ **Give a Gift**

  This time of year, many people choose to donate items to charity instead of making a monetary contribution. Not only does this save you money and prevent perfectly good items from getting wasted, but charitable donations can be deducted from your taxes as long as you get written documentation of the donation.

  Most gifts are not subject to the gift tax. For instance, you can give up to the annual exclusion amount ($14,000 in 2013) to any number of people every year, without facing any gift taxes. Recipients never owe income tax on the gifts. In addition to the annual gift amount, until the end of 2013, you can give a total of up to $5.25 million before you start owing the gift tax. This gift exclusion amount will increase to $5.34 million in 2014.[11] Remember, this is a lifetime limit, so it will continue to increase each year with inflation, increasing the amount that you can gift without owing taxes on it.

- ☐ **Fund an Education**

  The American Opportunity tax credit, which was due to expire in 2012, was extended through December 2017. It is valued at $2,500 for 2013, up from $1,800 in 2008. Because a tax credit reduces your tax bill dollar-for-dollar, this basically means the government will give you up to $2,500 per year for each qualifying college student in your family. And unlike the old Hope Credit, which only covered the first two years of college, the American Opportunity credit can be claimed for all four years of post-high-school education. You can get the maximum credit if you spend at least $4,000 in qualifying expenses, which now includes the cost of books, tuition, and fees. The full credit is available to individuals whose modified AGI is $80,000 or less, or $160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels.[12]

☐ **Don't Forget the New Medicare Taxes**

Beginning in 2013, two new Medicare taxes went into effect. The first was a new 3.8% Medicare tax imposed on profits from the sale of investment property. This includes capital gains, dividends, interest payments and net rental income, though distributions from qualified retirement plans are exempt. The tax applies to wealthy individuals earning a gross income of $200,000 or more and joint filers with a combined gross income of $250,000. The second tax was a 0.9% tax applied to wages and compensation in excess of $200,000 for single taxpayers, and $250,000 for joint filers. If you're in the affected income bracket, speak with your investment representative and accounting professional to discuss how the new taxes will affect your tax burden this year.[13]

☐ **Buy Something Nice**

State or local sales taxes you have paid on the purchase or lease of a vehicle, the purchase of a boat or aircraft, or the purchase or renovation of a home may all be eligible for deduction against your federal income taxes. Additionally, people who claim the sales tax deduction don't have to report any state income tax refund as taxable income in the following year. So if your sales tax deduction is about the same as your income tax deduction, you'll probably come out ahead by taking the sales tax deduction.[14]

CONCLUSION AND STEPS TO TAKE

We hope you will find some of these strategies useful as you go through your tax planning process this year. One of the ways we help our clients is by working hard to provide tax-smart investment strategies to minimize the impact Uncle Sam can have. In addition, we consider it our responsibility to educate you about things that could affect your financial future. As always, feel free to contact us with any questions, and to discuss points of interest with your tax professional as there may be crucial details involved in making your plan effective.

Sincerely,

Brad Connors

Brad Connors
Certified Wealth Strategist®

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