

Re: Year End Tax Planning

Dear Clients, Associates, Friends, & Family:

## **Year-End Tax Planning for 2014**

It's that time of year again - time for year-end tax planning and thinking ahead to next year and new possible tax planning strategies. The following is an overview of some items you may want to consider about your 2014 tax return. If you have questions about any of these topics, feel free to contact us.

### **Individual Tax Provisions**

#### *1. Standard Mileage Rate*

Beginning January 1, 2014, the standard mileage rate is 56 cents per mile for business miles driven, 23.5 cents per mile driven for medical or moving purposes, and 14 cents per mile for charitable related mileage.

#### *2. Student Loan Interest Deduction*

The maximum amount of the student loan interest paid on a qualifying loan for yourself, your spouse, or your dependents is \$2,500. The amount of the deduction is phased out (gradually reduced) if your Modified Adjusted Gross Income is between \$130,000 and \$160,000 if you file a joint return and \$65,000 and \$80,000 if you do not. You cannot take the deduction if your MAGI is greater than \$160,000 if filing jointly or \$80,000 if not, if you are someone's dependent, or if your filing status is married filing separately.

#### *3. American Opportunity Credit, Lifetime Learning Credit, & Tuition & Fees Deduction*

There are two tax credits available to help you offset qualifying costs of higher education as of 2014. These are the American opportunity credit and the lifetime learning credit, and each student may only take one. The American opportunity credit is limited to \$2,500 for each qualifying student who has not completed the first four years of undergraduate education. This begins to phase out if your MAGI is over \$80,000 (or \$160,000 if you file a joint return.) The lifetime learning credit is limited to \$2,000 and there is no limit on the number of years it can be taken. This begins to phase out if your MAGI is \$62,000 (\$124,000 if you file a joint return.) The tuition and fees deduction may be beneficial if you do not qualify for the American opportunity or lifetime learning credits.

#### *4. Child Tax Credit*

The child tax credit may reduce your federal income tax owed by up to \$1,000 for each qualifying child under the age of 17. The credit is reduced if your AGI is over \$110,000 and your filing status is married filing jointly, or over \$75,000 if your filing status is single, head of household, or qualifying widow(er), or \$55,000 and your filing status is married filing separately.

#### *5. Child and Dependent Care Credit*

You may be able to claim the child and dependent care credit if you paid work-related expenses for the care of a qualifying individual. The credit is generally a percentage of the amount of work-related expenses you paid to a care provider for the care of a qualifying individual. The percentage depends on your adjusted gross income. The qualifying child must be under the age of 13 when the care is provided.

#### *6. Adoption Credit*

Beginning in 2014, the credit allowed for the adoption of a child with special needs is \$13,190. The maximum credit allowed for all other adoptions is the amount of qualified adoption expenses up to \$13,190. This begins to phase out for taxpayers with modified adjusted gross income in excess of \$197,880 and is completely phased out for taxpayers with modified adjusted gross income of \$237,880 or more.

#### *7. Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax")*

For taxable years beginning in 2014, the amount which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is \$1,000.

#### *8. Medical Expense Deduction*

Taxpayers who itemize deductions can claim a deduction for qualifying unreimbursed medical expenses in excess of 10% of AGI if under age 65, and 7.5% if 65 or older until 2016.

#### *9. Long-Term Care Insurance*

The credit for long-term care insurance in 2014 is limited to \$370 for individuals age 40 or less at the end of the tax year, \$700 for individuals age more than 40 but not more than 50, \$1400 for individuals age more than 50 but not more than 60, \$3,720 for individuals age more than 60 but not more than 70, and \$4,660 for individuals who more than 70 years old.

### *10. Social Security and Medicare*

The social security wage base limit is \$117,000 for the 2014 tax year. There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax. In 2013 an additional Medicare tax rate of 0.9 % went into effect and applies to wages, compensation, and self-employment income above a threshold amount received in taxable years beginning after December 31st, 2012. The threshold amounts are MAGI over \$125,000 if your filing status is married filing separately, \$200,000 if single, qualifying widow(er), or head of household, and \$250,000 if married filing jointly. Additional Medicare Tax Withholding must be taken from wages paid to any employee in excess of \$200,000.

### *11. Limit on Effective Deferrals*

The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is \$17,500. The catch-up contribution limit for employees aged 50 and over is an additional \$5,500.

### *12. Traditional & Roth IRA Limits & Savers' Credit*

For 2014, you, and your spouse if filing jointly, may be able to deduct up to \$5,500 (\$6,500 if you are age 50 or older at the end of the year) of contributions to Individual Retirement Accounts. This is phased out for singles and heads of household who are covered by a workplace retirement plan and have MAGI between \$60,000 and \$70,000. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is \$96,000 to \$116,000 in 2014. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$181,000 and \$191,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$181,000 to \$191,000 for married couples filing jointly. For singles and heads of household, the income phase-out range is \$114,000 to \$129,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The AGI limit for the savers' credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is \$60,000 for married couples filing jointly, \$45,000 for heads of household, and \$30,000 for married individuals filing separately and for singles.

### *13. 3.8 Percent Medicare Contribution Tax*

Beginning in 2013, you may be subject to Net Investment Income Tax at a rate of 3.8% to certain net investment income of individuals, estates, and trusts. You may owe tax if you have MAGI over \$125,000 if your filing status is married filing separately, \$200,000 if single or head of household, and \$250,000 if married filing jointly or qualifying widow(er).

### *14. Same Sex Marriage*

As of 2013, legally married same sex couples must file with the status of married filing jointly or married filing separately even if the married couple resides in a jurisdiction that does not recognize the validity of same sex marriages. This does not apply to domestic partnerships. Amended returns may be filed for tax years still open by the statute of limitations, but are not required to be filed.

### *15. Capital Gains Rate*

Beginning in 2013, the maximum rate for capital gains and dividends is 20% on the net capital gain to the extent the taxpayer's taxable income exceeds the thresholds set for the new 39.6% ordinary tax rate (\$400,000 for single, \$450,000 for married filing jointly or qualifying widow(er), \$425,000 for head of household, and \$225,000 for married filing separately. Exceptions apply to gains on qualified small business stock, collectibles, and unrecaptured section 1250 gain from selling section 1250 real property.

### *16. Earned Income Credit*

Qualifying taxpayers with low to moderate income can benefit from the earned income credit. The maximum credit in 2014 is \$496 for taxpayers with no qualifying children and earned income less than \$14,590 (or \$20,020 if married filing jointly), \$3,305 for taxpayers with one qualifying child and earned income less than \$38,511 (or \$43,941 if MFJ), \$5,460 for taxpayers with two qualifying children and earned income less than \$43,756 (or \$49,186 if MFJ), and \$6,143 for taxpayers with three or more qualifying children and earned income less than \$46,997 (or \$52,427 if MFJ).

### *17. Family Tax Relief Credit*

This new credit is a \$350 payment to certain middle-income New Yorkers. In the fall of 2014, the state will automatically mail out checks to eligible taxpayers. You are eligible if, on your 2012 tax return, you were a NY full year resident, claimed at least one dependent child under the age of 17, had NY AGI between \$40,000 and \$300,000, and had a NY liability after credits that is zero or greater. In 2015 and 2016, taxpayers will claim the credit when they file if they are eligible.

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## **Business Tax Provisions**

### *1. Depreciation and Section 179 Expense*

The maximum section 179 deduction you can elect for qualified section 179 assets you placed in service in 2014 is \$25,000.

### *2. Self Employment Tax*

The maximum amount of net earnings subject to the social security part of the self-employment tax for 2014 is \$117,000. All net earnings of at least \$400 are subject to the Medicare part of the tax. The self-employment tax rate is 15.3%, consisting of 12.4% for social security and 2.9% for Medicare.

### *3. Small Business Health Care Tax Credit*

This new credit helps small businesses and small tax-exempt organizations afford the cost of their employees and is specifically targeted for those with low and moderate income workers. Beginning in 2014, there are some changes to the credit. The maximum credit increases to 50 percent of premiums paid for small business employers and 35 percent of premiums paid for small tax-exempt employers. A small employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement, and it can only be taken in two consecutive taxable years.

### *4. LLC & LLP Filers*

Limited Liability Companies and Limited Liability Partnerships must again file form IT-204- LL in New York. The fee is \$25 if the NY gross income is greater than \$0 but less than \$100,000, \$50 if it is greater than \$100,000 but less than \$250,000, \$175 if it is greater than \$250,000 but less than \$500,000, \$500 if it is greater than \$500,000 but less than \$1,000,000, and \$1,500 if it is greater than \$1,000,000 but less than \$5,000,000, \$3,000 if it is greater than \$5,000,000 and less than \$25,000,000, and \$4,500 if it is greater than \$25,000,000.

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