Longman
WEALTHCARE
MANAGEMENT, LLC

Year-End Tax Planning (2014)

To Our Clients and friends:

Year-end planning will be more challenging than normal this year. Unless Congress acts, a number of popular deductions and credits expired at the end of 2013 and won't be available for 2014. Deductions not available this year include, for example, the election to deduct state and local sales taxes instead of state and local income taxes; the above-the-line deductions for tuition and educator expenses, generous bonus depreciation and expensing allowances for business property; and qualified charitable distributions that allow taxpayers over age *70 ½* to make tax-free transfers from their IRAs directly to charities.

Of course, Congress could revive some or all the favorable tax rules that have expired as they have done in the past. However, which actions Congress will take remains to be seen and may well depend on the outcome of the elections.

Individual Tax Strategies:

- *Standard Deduction and Bunching Itemized Deductions.* For 2014, the standard deduction is $12,400 for married taxpayers filing joint returns ($6,200 for single taxpayers). The 2015 amounts will be slightly higher. If your total itemized deductions are normally close to the standard deduction amounts, you may be able to get more benefit from your itemized deductions by bunching them into every other year. Then, your itemized deductions will be higher in one year and low in the next. Hopefully, in the "high" years, the itemized deductions will exceed your standard deduction. In the "low" years, you will take the standard deduction. Then, you will get some benefit from your itemized deductions every other year, instead of just taking the standard deduction each year. Charitable donations, real estate taxes, or state income taxes otherwise due in early 2015 are good candidates for bunching. However, watch out for the alternative minimum tax (AMT), as these taxes are not deductible for AMT purposes.

- *Managing Your Adjusted Gross Income (AGI).* Many tax deductions and credits are subject to AGI-based phase-out, which means only taxpayers with AGI below certain levels benefit. [AGI is the amount at the bottom of page 1 of your Form 1040- basically your gross income less certain adjustments (i.e., deductions), but *before* itemized deductions and the deduction for persona! exemptions.) Unfortunately, however, the applicable AGI amounts differ depending on the particular deduction or credit. The following table shows a few of the more common deductions and credits and the applicable AGI phase-out ranges for 2014:

Deduction or Credit	**Adjusted Gross Income Phase-Out Range**		
	Joint Return	**Single/Head of Household (HOH)**	**Married Filing Separate**
American Opportunity Tax Credit	$160,000-$180,000	$80,000-$90,000	No Credit
Child Tax Credit	Begins at $110,000	Begins at $75,000	Begins at $55,000
Itemized Deduction and Personal Exemption Reduction	Begins at $305,050	Begins at $254,200 Single, $279,650 HOH	Begins at $152,525
Lifetime Learning Credit	$108,000-$128,000	$54,000-$64,000	No Credit
Passive Rental Loss ($25,000) Exception	$100,000-$150,000	$100,000-$150,000	No exception unless spouses live apart
Student Loan Interest Deduction	$130,000-$160,000	$65,000-$80,000	No deduction

Managing your AGI can also help you avoid (or reduce the impact of) the 3.8% net investment income tax that potentially applies if your AGI exceeds $250,000 for joint returns, $200,000 for unmarried taxpayers.

Managing your AGI can be somewhat difficult, since it is not affected by many deductions you can control, such as deductions for charitable contributions and real estate and state income taxes. However, you can effectively reduce your AGI by increasing "above-the-line" deductions, such as those for IRA or self-employed retirement plan contributions. For sales of property, consider an install-ment sale that shifts part of the gain to later years when the installment payments are received or use a like-kind exchange that defers the gain until the exchanged property is sold. If you own a cash-basis business, delay billings so payments aren't received until 2015

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or accelerate paying of certain expenses, such as office supplies and repairs and maintenance, to 2014. Of course, before deferring income, you must assess the risk of doing so.

• *Harvest Capital Losses.* There are a number of year-end investment strategies that can help lower your tax bill. Perhaps the simplest is reviewing your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year. Don't worry if your net loss for the year exceeds $3,000, because the excess carries over indefinitely to future tax years. Be mindful, however, of the wash sale rule when you jettison losers-your loss is deferred if you purchase substantially identical stock or securities within the period beginning 30 days before and ending 30 days after the sale date.

• *Secure* a *Deduction for Nearly Worthless Securities.* If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules capital loss and wash sale rules previously discussed).

• *Seniors 70 ½ and the Required Retirement Distributions.* The tax laws generally require individuals with retirement accounts to take withdrawals based on the size of their account and their age beginning with the year they reach age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. If you turned age 70 ½ in 2014, you can delay your 2014 required distribution to 2015 if you choose. But, waiting until 2015 will result in two distributions in 2015-the amount required for 2014 plus the amount required for 2015. While deferring income is normally a sound tax strategy, here it results in bunching income into 2015. Thus, think twice before delaying your 2014 distribution to 2015-bunching income into 2015 might throw you into a higher tax bracket or bring you above the modified AGI level that will trigger the 3.8% net investment income tax. However, it could be beneficial to take both distributions in 2015 if you expect to be in a substantially lower bracket in 2015. For example, you may wish to delay the 2014 required distribution until2015 if you plan to retire late this year or early next year, have significant nonrecurring income this year, or expect a business loss next year.

• *Be on the alert for the Alternative Minimum Tax (AMT) in all of your planning.* What may be a great move for regular tax purposes may create or increase an AMT problem. There's a good chance you'll be hit with AMT if you deduct a significant amount of state and local taxes, claim multiple dependents, exercise incentive stock options or recognize a large capital gain this year.

Business Tax Strategies:

• *Check Your Partnership and S Corporation Stock Basis.* If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. Although any unused loss can be carried forward indefinitely, the time value of money diminishes the usefulness of these suspended deductions. Thus, if you expect the partnership or S corporation to generate a loss this year and lack sufficient basis to claim a full deduction, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end.

• *Avoid the Hobby Loss Rules.* A lot of businesses that are just starting out or have hit a bump in the road may wind up showing a loss for the year. The last thing the business owner wants in this situation is for the IRS to come knocking on their door arguing the business's losses aren't deductible because the activity is just a hobby for the owner. Surprisingly, the IRS has been fairly successful recently in making this argument when it takes taxpayers to court. Thus, if your business is expecting a loss this year, we should talk before year- end to make sure we do everything possible to maximize the tax benefit of the loss and minimize its economic impact.

These are just a few tax-saving ideas to get you started. As always, you can call on us **(305)-892-8598** to help you sort through the options and implement strategies that make sense for you.

Best regards,

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