Johnny Bruce, CPA
650 Henderson Drive, Suite 407
Cartersville, GA 30120
(770) 826-2107
Johnny_bruce@ymail.com

YEAR-END TAX PLANNING

Below is tax planning ideas that may be beneficial to several clients. Please do not hesitate to call me and set up an appointment to discuss the strategies listed below. I hope you find this information helpful and use the listed strategies to your advantage if they apply to your individual or business tax situation.

Strategies to postpone income, accelerate deductions, and otherwise reduce taxes for 2014:

1. ***Increase withholding.*** Clients with substantial nonwage income in addition to their salary should adjust their withholding for the rest of the year to ensure that it covers their required estimated tax payments to avoid the penalty for failure to make estimated tax payments.

2. ***If a client is marrying or divorcing, evaluate how the year-end marital status will affect the tax return.*** Clients who get married or divorced during the year are treated as having had their Dec. 31 marital status all year. Now is the time to discuss with clients who are getting married or divorced late in the year how that will affect their taxes.

3. ***Minimize tax on Social Security benefits.*** When a Social Security recipient's MAGI plus 50% of his or her Social Security benefits exceeds certain base amounts, the benefits can be taxable. The MAGI thresholds are $25,000 for single individuals, $32,000 for married taxpayers filing a joint return, and zero for married individuals filing separately. Clients whose income is close to these thresholds should consider deferring income to avoid the tax on Social Security benefits.

4. ***Defer bonus.*** If the client's employer will cooperate, consider asking the employer to put off paying any 2014 bonus until early in 2015.

5. ***Group miscellaneous itemized deductions in one year.*** Miscellaneous itemized deductions are deductible only to the extent they exceed 2% of the client's adjusted gross income. Clients should try to group such expenses in one year to meet the threshold. For example, pay professional dues and job-related tuition in December instead of January to bring them into 2014.

6. ***Prepay certain expenses using a credit card.*** Contributions to charity and deductible medical expenses are deductible when charged to the client's credit card, rather than

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when the client pays the credit card bill (Rev. Rul. 78-38; Rev. Rul. 78-39). Such expenses charged in December will be deductible in 2014, even though the credit card bill is not paid until 2015.

7. ***Maximize casualty losses by settling insurance claims***. While a casualty loss is usually deductible in the year it is sustained, it is not "sustained" if the client has made an insurance claim for the full value of the loss and has a reasonable prospect of recovery on the claim. In that case, if the insurance proceeds are less than the amount of the loss, the client can deduct the casualty loss in the year the insurance proceeds are paid. Clients with pending insurance claims may want to decide to settle this year in order to claim the casualty loss this year.

8. ***Make gifts***. Year-end gifts of appreciated property can move taxable gain to family members in a lower tax bracket. Also, a client can make gifts to any number of donees before year end and as long as each gift does not exceed $14,000, the gifts will not be taxable or count against the donor's unified estate and gift tax exemption. Married clients can make joint gifts of up to $28,000 to each donee under these rules. Clients should be reminded that gifts must be made by Dec. 31 to take advantage of this provision, and that a gift made by check may not count as a 2014 gift if it is not cashed or deposited by the donee in 2014.

9. ***Dispose of passive activities to take advantage of suspended passive losses***. Losses from a passive activity that can't be realized in a particular tax year because of the passive loss limitations are suspended and carried forward until they can be used. Clients who are carrying suspended passive losses might want to dispose of the passive activity before the end of the year to take advantage of those suspended losses. When the passive activity is disposed of, the losses from the year of disposition, including carried over losses that exceed passive income for the year, are no longer treated as passive losses.

10. ***Make Sec. 179 expenditures***. Clients can elect to deduct currently rather than depreciate the costs of new or used tangible property used in the client's business over a period of years. Unfortunately, the increased levels that were in effect for Sec. 179 for the past several years have expired. For 2014, the maximum amount that can be expensed is $25,000, and the deduction is phased out when qualifying property placed in service during the year exceeds $200,000.

11. ***Realize stock losses to offset gains***. Many clients may be holding appreciated investments, but also lost money on some stock investments in 2014. They should consider selling the appreciated investments and offset them with the losses. Clients

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need to be aware that long-term capital losses first offset long-term capital gains and that short-term capital losses first offset short-term capital gains.

12. ***Convert ordinary income to qualified dividend income***. Clients should consider shifting investments from ones where the income is taxed at ordinary rates, such as bonds, to stocks that pay dividends. If the dividend income is qualifying (received from a domestic corporation or qualified foreign corporation and the taxpayer held the stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date), the income will be taxed at capital gains rates.

RETIREMENT PLANNING:

1. ***Start a retirement plan***. Clients who are eligible to contribute to an IRA or to start a Keogh plan (if self-employed), but who don't currently have such a retirement savings vehicle, should consider setting one up to take advantage of deductible contributions for 2014.

2. ***Maximize contributions to retirement plans***. Making contributions from pretax income is always a good strategy, but it can be especially beneficial if it brings the client's income down into a lower tax bracket.

ESTATE PLANNING:

The increased estate tax exemption ($5.34 million for 2014) and portability of the unused exemption of the first spouse to die means that for many clients, estate planning has become less important. Now is a good time to revisit estate plans made under the old rules to see if they should be revised to reflect the new rules. Finally, if clients are nearing the phase-out thresholds for various tax benefits, they need to keep their income below the threshold if possible. Common tax benefits with income-level phase outs include contributions to Coverdell Education Savings Accounts, the deduction for interest on qualified education loans, the lifetime learning and American opportunity credits, the child tax credit, and traditional and Roth IRAs.

Thank you!