YEAR END TAX HOTLINE

2014

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YOUR ENROLLED AGENT

POPULAR TAX PROVISIONS EXPIRE

More than 50 popular tax provision expired at the end of 2013 and congress failed to extend them before it recessed for the 2014 session.

For individuals, the option to deduct state and local sales and use taxes instead of state and local income taxes; above-the-line deduction for qualified higher education expenses; deduction for up to $2 million of mortgage debt forgiveness and tax-free distributions by those over 70 from IRAs for charitable purposes.

For businesses, 50% bonus depreciation; a high $500,000 expensing limitation; the research tax credit and the 15-year write-off for leasehold improvements.

What's new for 2014?

Mileage reimbursement rates. For owned or leased autos (including vans, pickups or panel trucks) for business travel is 56 cents per mile. For medical is 23.5 cents per mile and for charitable is 14 cents per mile. The 2015 standard mileage rates are expected to be announced later in December.

Tax treatment of same-sex spouses. The IRS and other agencies issued guidance on the treatment of same-sex spouses and couples for tax and other purposes in response to the Supreme Courtøs landmark decision striking down section 3 of the Defense of Marriage Act. That act required same-sex spouses to be treated as unmarried for purposes of federal law.

Individuals and dependents must have health insurance. Beginning in 2014, the 2010 health care reform law requires individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty, Some taxpayers will qualify for an exception from this ñindividual mandateò; others already have qualifying coverage obtained through the market; a government-sponsored plan such as Medicare or Medicaid; still others have coverage through an employer sponsored plan. Lower income individuals who obtain health insurance in the market may qualify for a premium tax credit to help offset cost.

The 3.8% Medicare Investment Income Tax. Higher earning taxpayers need to plan for the 3.8% Medicare tax on net investment income. This tax (actually new last year) was created as part of the health care act. It comes into play when your modified gross income is over $250,000 for joint filers or surviving spouses and $200,000 in any other case.

The 0.9% Medicare Tax. The health care act also added another tax last year, an additional 0.9% Medicare (hospital insurance) tax that applies to individuals receiving employment wages in excess of $200,000 ($250,000 for married filing jointly and $125,000 for married couples filing separately).

Underwater on your home? If you are currently underwater on your home (you owe more than your home is worth) and you are considering selling or getting a loan modification, you might want to wait a little longer. Qualified mortgage debt relief from your lender discharged in 2014 will be income. If congress extends a previous benefit and makes it retroactive any discharged debt on or after January 1, 2014 will not be considered income.

Depreciation Expensing. Unless congress changes the rules, for tax years beginning in 2014 the dollar limit for expensing fixed asset purchases will drop to $25,000, the beginning-of-phase-out amount will drop to $200,000 and expensing wonôt be available for qualified real property. The generous dollar ceilings that were available in 2013 are no longer available. The 50% bonus first-year depreciation generally wonôt be available unless congress acts to extend it.

Take Stock Losses in 2014. Harvest your losses while preserving you investment position. This can be done by selling the original holding, then buying back the same securities 31 days later.

Employerôs Health Flexible Spending Account. If you put too little into your employerôs health flexible spending account (FSA) this year, increase the amount you set aside for next year. If your employer takes advantage of an FSA option, you may be able to carryover $500 into the following year.

Pay First Quarter Education Expenses Early. Unless congress extends it the up-to-$4,000 above the line deduction for qualified higher education expenses will not be available after 2014. If doing so will increase your total deduction consider prepaying 2015ôs first quarter eligible expenses.

Credit for Small Employersô Employee Health Insurance Expenses. Eligible small employers are allowed a credit for 50 % of certain contributions made to purchase health insurance for their employees. Eligible employers are generally those with 10 or fewer full time employees with wages of $25,000 or less that offer a qualified health plan (QHP) through a small business health options program exchange. The credit amount begins to phase out for employers with either 11 FTEs or average annual employee wages of more than $25,000. The credit is phased out completely for employers with 25 or more FTEs or average annual employee wages of $50,000 or more.

S Corporation Election. Consider incorporating and electing S Corporation status or, if your business is already incorporated consider switching from C to S status. Doing so can avoid federal and state double taxation on business income and recognized gains at the time of a future sale or liquidation. (C corporations pay tax on their taxable income and then any dividends paid to shareholders is taxed again at the shareholder level).

Once your business converts from C to S status, a 10 year period must pass before a future sale or liquidation can be completely escape double taxation.

IRA

Convert to a Roth IRA. If you want to remain in the market for a long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however that such a conversion will increase your adjusted gross income for 2014.

Consider Reversing your 2014 IRA to Roth IRA Conversion. If you converted assets in a traditional IRA to a Roth IRA earlier in 2014, the assets in the Roth IRA account may have declined in value. That means if you leave things as-is you will wind up paying a higher tax than is necessary. You can still back out of the conversion by recharacterizing the rollover, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

Use a Retirement Rollover to Avoid Penalties. Facing a penalty for underpayment of estimated tax and increasing your withholding wonøt solve the problem? Take an eligible rollover distribution from a qualified retirement plan before the end of 2014. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2014. You can then timely roll over the gross amount of the distribution (thatøs the net amount you received plus the amount of the withheld tax) to a traditional IRA. No part of the distribution will be includible for 2014, but the withheld tax will be applied pro rata over the full 2014 tax year to reduce any previous underpayments of 2014 estimated tax.

Donøt Forget Your RMDs. Take required minimum distributions (RMDs) from your IRA or 401K plan (or other employer-sponsored retired plan) if you have reached the age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

New 2015 IRA Rollover Rules. Beginning in 2015, you can make only one rollover from an IRA to another (or same) IRA in any 12 month period, regardless of the number of IRAs you own. The limit will apply by aggregating all of an individualøs IRAs, including SEP and SIMPLE IRAs as well as traditional and Roth IRAs, effectively treating them as one IRA for purposes of the limit.

WISCONSIN

Wisconsin Same-Sex Marriage. On October 6, 2104 the U. S. Supreme Court denied Wisconsinøs petition for certiorari in Walker v. Wolf regarding the ban on same-sex marriage. The Department of Revenue recognizes same-sex marriage as legal in Wisconsin. Previously, same-sex couples who had filed a joint Federal tax return were required to file as single or head of household for Wisconsin. A couple is considered married for the whole year if they were lawfully married as of December 31. Lawfully married means a valid marriage in a state that recognizes same-sex marriage. For 2014 returns a lawfully married same-sex couple must file their Wisconsin income tax returns as married filing joint, Married filing separately or if qualified, head of household. Some prior returns may be amended.

New Private school tuition deduction. The deduction per elementary pupil (K-8) is a maximum of $4,000. The deduction for a secondary student is a maximum of $10,000. If an individual is an elementary pupil and a secondary pupil in the same taxable year, the claimant may claim the subtraction for only one grade for that pupil for that tax year. Eligible institution means a private school with a private education program that meets all of the criteria under Wis. Stats. Tuition means any amount paid by the claimant for a pupilôs tuition to attend an eligible institution. There is no income limitation for eligible taxpayers. However the child must be a dependent and the tuition must have been paid during the tax year.

Depreciation change. Beginning in 2014, depreciation, depletion and amortization for Wisconsin purposes will be based on federal law in effect on January 1. 2014. This law change means the end to differences between state and federal basis. In addition, there is a subtraction for the difference in federal vs state depreciation. This adjustment is taken over 5 years by subtracting 20% each year of the difference existing on 12/31/2013.

Net Operating Losses. Beginning in 2014, Wisconsin will change its treatment of net operating losses to conform to federal treatment. In prior years, the federal NOL was added back to the federal AGI for state tax purposes. Any unused loss could not be carried back. The loss could be carried forward for 15 years. Under the new law the carryforward period will be 20 years and a new 2 year carry back period is established.

Military Tax Issues. All income received by a member of the US Armed Forces who died while on active service in a combat zone is not taxable to Wisconsin

MISCELLANEOUS

To deduct any contribution of $250 or more to one organization you must have a written receipt.

Gamblers-If you find yourself spending more time at the casino lately it might be a good idea to talk to us about records and session reporting. The Internal Revenue Service is getting more active in this area and records are really needed to defend the position taken.

It helps tie everything together on the W-2 if you bring in your final payroll check stub. The payroll stub has all the deductions for both taxable and non taxable events. The W-2 does not have all the same information.

If you have any assets located outside of the United States there may be reporting requirements and you should discuss with your tax return preparer.

NEW CLIENTS

With the addition of Troy to our accounting and tax staff we are again in a position to take on new clients. We would appreciate any referrals.

Dave is out of the office from December 30, 2014 – January 20, 2015 and Don is out of the office from December 27, 2014 – January 7, 2015. If you have questions, once 2015 is here not much can be changed for 2014, please call as soon as possible.

HAPPY HOLIDAYS!

Everyone at Hegg Accounting wishes you and yours a safe and Happy Holiday Season.