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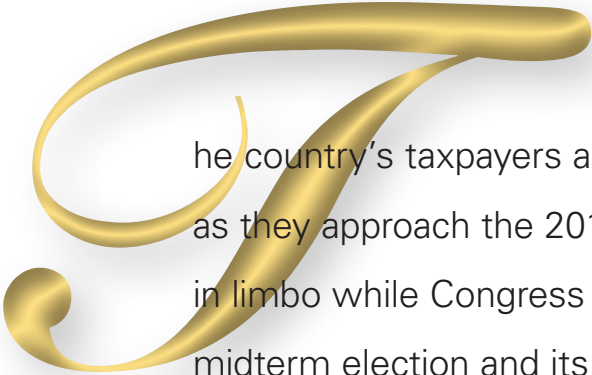


Year-End Tax

Planning Letter



2014



he country's taxpayers are facing more uncertainty than usual as they approach the 2014 tax season. They may feel trapped in limbo while Congress is preoccupied with the November midterm election and its results – leaving legislation that could alter the current tax picture up in the air.

Since the D.C. lawmakers are unlikely to pass, extend or modify tax provisions anytime soon, tax planning may seem pointless. But, actually, careful planning is wise regardless of the situation and even more important during uncertain times.

A current reassessment of your situation could allow you to respond more quickly once changes are enacted. After all, resolving the election questions may trigger a flurry of congressional activity as the representatives recognize the need to deal with pending changes before the end of the year.

Even though the federal tax laws haven't changed much from last year, your circumstances may have changed. And some rules that expired on Dec. 31, 2013, may yet be restored, even retroactively, to Jan. 1, 2014. It could be the perfect time for you to get a fresh perspective.

To make sure you're taking all the appropriate steps to minimize your individual and business taxes, you should prepare to anticipate possible changes with the informed guidance of your tax professional.

Tax Strategies for Individuals

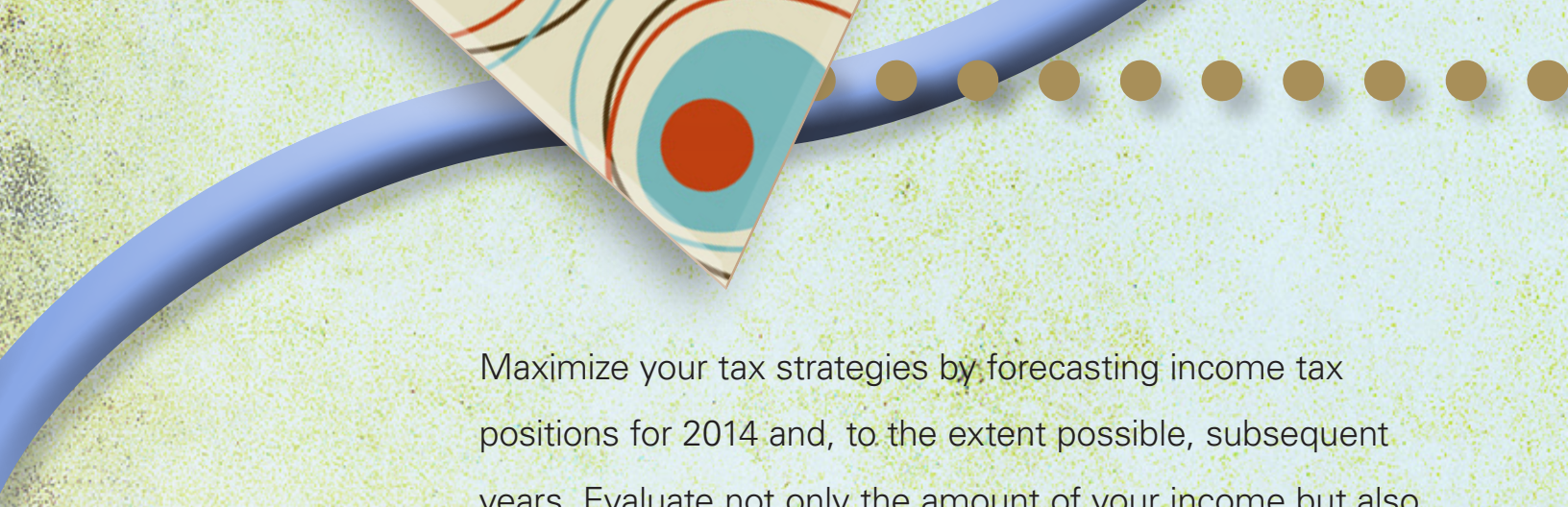
Time income and expenses

Before you can make wise planning decisions about your individual taxes, you need to be aware of your current tax situation.

Can you control when you receive income – or at least determine when deductible expenses are paid? If you can control timing, you have a valuable planning tool that can enable you to reduce your taxable income and tax liability.

However, note that having too much control over the timing of income could mean that you have “constructive receipt” of the income, which causes taxation of income at that time.







Maximize your tax strategies by forecasting income tax positions for 2014 and, to the extent possible, subsequent years. Evaluate not only the amount of your income but also the types of income you anticipate generating, your marginal tax bracket, net investment income, wages and self-employment earnings, and capital gains and losses.

In addition, early in your planning, determine whether you are likely to be subject to the alternative minimum tax (AMT).

The AMT's function is to level taxes when income – adjusted for certain preference items – exceeds certain exemptions, but the tax rate applied to that income falls below the AMT rate.

Before deciding to accelerate or defer income and prepay or delay deductible expenses, you need to gauge the possible effect of the AMT on these tax-planning strategies. Having a number of miscellaneous itemized deductions, personal exemptions, medical expenses and state and local taxes can trigger AMT.

The opportunity to take advantage of income timing exists particularly for taxpayers who are:

- ▲ In a different tax bracket in 2014 than in 2015;
 - ▲ Subject to the AMT in one year but not the other;
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- ▲ Subject to the 3.8 percent net investment income (NII) tax in one year but not the other; or
- ▲ Subject to the additional 0.9 percent Medicare tax on earned income in one year but not the other.

The 3.8 percent NII tax and the 0.9 percent Medicare tax apply when your modified adjusted gross income exceeds threshold amounts.

3.8 Percent Net Investment Income Tax	
<i>Applies to individuals with net investment income and modified adjusted gross income over the following thresholds:</i>	
Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying surviving spouse with dependent child	\$250,000
Additional 0.9 Percent Medicare Payroll Tax	
<i>Applies to individuals with earned income over the following thresholds:</i>	
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single and head of household	\$200,000
Qualifying surviving spouse with dependent child	\$200,000

Net investment income includes dividends, rents, interest, passive activity income, capital gains, annuities and royalties.

Passive pass-through income is subject to the NII tax.

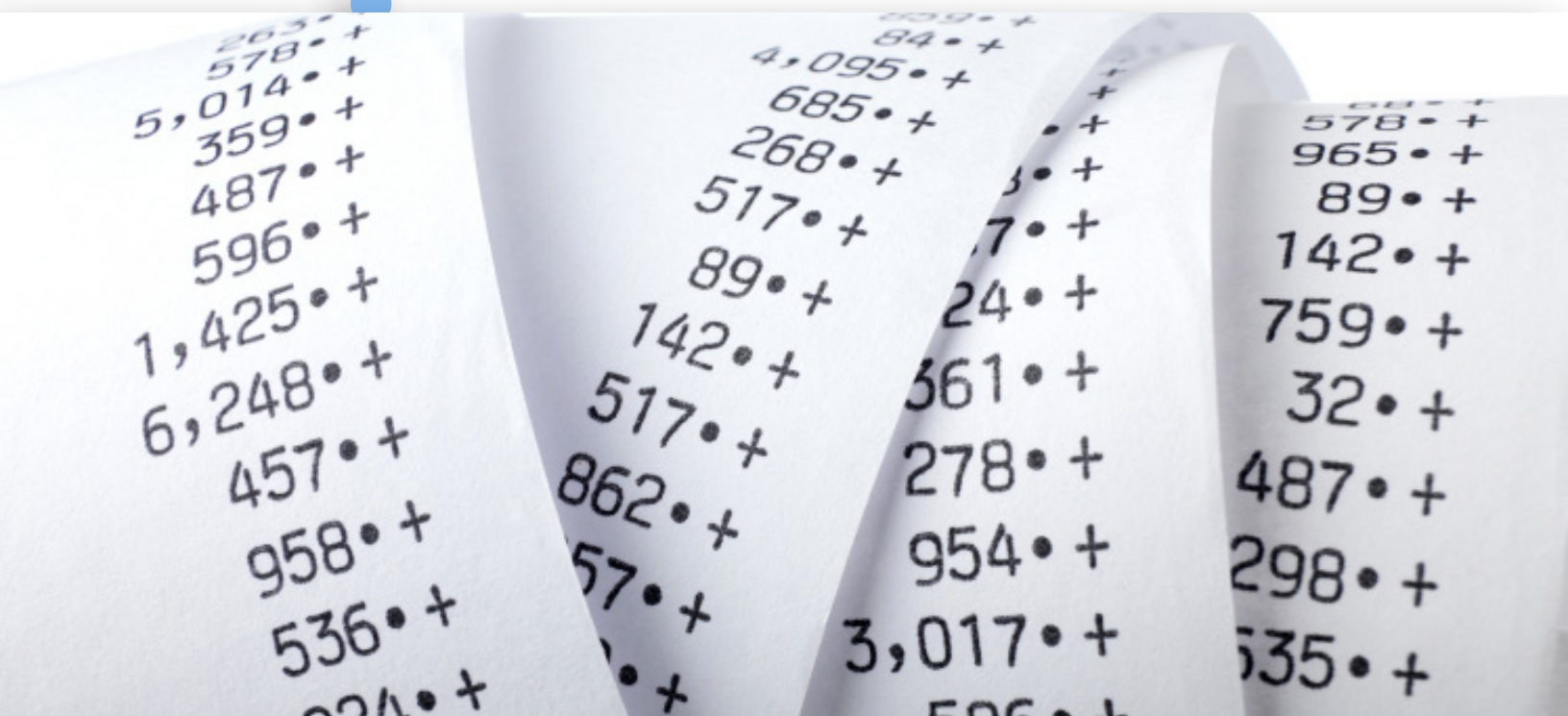


The NII tax does not apply to nonpassive income, such as:

- ▲ Self-employment income
- ▲ Income from an active trade or business
- ▲ Portions of the gain on the sale of an active interest in a partnership or S corporation with investment assets
- ▲ IRA or qualified plan distributions

Remember that the additional 0.9 percent Medicare payroll tax applies to earnings of self-employed individuals and wages in excess of the thresholds in the table on the previous page.

After analyzing your specific tax situation, if you anticipate that your income will be higher in 2015, you might benefit from accelerating income into 2014 and possibly postponing deductions, keeping the AMT threat in mind.



On the other hand, if you think you may be in a lower tax bracket in 2015, look for ways to defer some of your 2014 income. For example, you could delay into 2015:

- ▲ Collecting rents
- ▲ Receiving payments for services
- ▲ Accepting a year-end bonus
- ▲ Collecting business debts

And if you itemize deductions, consider prepaying some of your 2015 tax-deductible expenses in 2014.

Individuals usually account for taxes using the cash method. As a cash method taxpayer, you can deduct expenses when you pay them or charge them to your credit card. Expenses paid by credit card are considered paid in the year they are incurred.

The following expenses are commonly prepaid as part of year-end tax planning:

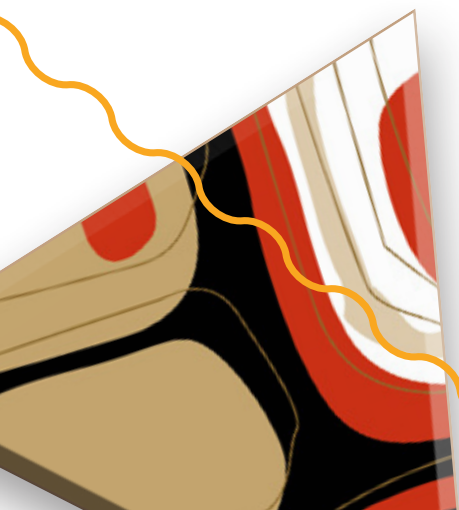
Charitable contributions – You may take a tax deduction for cash contributions to qualified charities of up to 50 percent of adjusted gross income (AGI). For charitable gifts of appreciated property, you may deduct up to 30 percent of your AGI – or 20 percent of AGI to private operating foundations.





When contemplating charitable contributions, consider:

- ▲ ***Contributing appreciated securities*** that you have held for more than one year. Usually, you will receive a charitable deduction for the full value of the securities, while avoiding the capital gains tax that would be incurred upon sale of the securities.
- ▲ ***Employing a charitable remainder trust*** as a tax planning tool. If you plan to sell a significant asset, you may be able to avoid capital gains tax on the sale, retain the income from investing the sales proceeds and take a charitable deduction for at least part of the value of the property.



State and local income taxes – You may prepay any state and local income taxes normally due on Jan.

15, 2015, if you do not expect to be subject to the AMT in 2014.

If you reside in a state with high income and property taxes, you are more likely to be subject to the AMT because state taxes are not deductible when computing AMT income.

By the way, the option of deducting state and local sales taxes in lieu of state and local income taxes expired on Dec. 31, 2013.

Real estate taxes – You can prepay in 2014 any real estate tax due early in 2015. But you should keep in mind how the AMT could affect both years when preparing to pay real estate taxes on your residence or other personal real estate. However, real estate tax on rental property is deductible and can be safely prepaid even if you are subject to the AMT.





Mortgage interest – Your ability to deduct prepaid interest has limits. But, to the extent your January mortgage payment reflects interest accrued as of Dec. 31, 2014, a payment before year-end will secure the interest deduction in 2014.

Margin interest – If you bought securities on margin, any interest accrued as of Dec. 31, 2014, will be deductible in 2014 only if you actually pay the interest by Dec. 31 (subject to the investment interest limitation rules).

Miscellaneous itemized deductions – You may deduct miscellaneous itemized deductions, like many deductions, only if you itemize your deductions and are not subject to the AMT. These deductions are different from other itemized deductions because the total amount of miscellaneous deductions must exceed 2 percent of your AGI to be deductible.

Taxpayers usually elect to itemize deductions only if total deductions exceed the standard deduction for the year

(see table below). If itemized deductions are near the standard deduction amount, grouping these deductions in alternating years is often an effective tax-planning strategy.

2014 Standard Deduction	
Single	\$6,200
Head of Household	\$9,100
Married Filing Jointly or Surviving Spouse	\$12,400
Married Filing Separately	\$6,200
Plus Additional Standard Deduction (For Age 65 or Older or Blindness)	
Married or Surviving Spouse	\$1,200
Unmarried	\$1,550

Some expenses are deductible as itemized deductions only to the extent they exceed a specified percentage of your adjusted gross income.

Medical expenses, unreimbursed employee business expenses, investment expenses and certain other miscellaneous itemized deductions fall into this category.

Taxpayers with unreimbursed medical and dental expenses may deduct the amount in excess of 10 percent of AGI. For taxpayers age 65 or older, the percentage is 7.5 percent, but this exception is temporary, slated to expire after Dec. 31, 2016.





Also deductible are unreimbursed employee business expenses, tax return preparation fees, investment expenses and certain other miscellaneous itemized deductions that together are in excess of 2 percent of AGI.

The amount of itemized deductions you can claim on your 2014 tax return is reduced by 3 percent of the amount by which your AGI exceeds the threshold amount of:

- ▲ \$254,200 for single taxpayers
- ▲ \$305,050 for married couples filing jointly
- ▲ \$279,650 for heads of household
- ▲ \$152,525 for married taxpayers filing separately

However, deductions for medical expenses, investment interest, casualty and theft losses, and gambling losses are not subject to the limitation. Taxpayers cannot lose more than 80 percent of the itemized deductions subject to the phaseout.

Know your tax rates, exemptions and phaseouts

A personal exemption is usually available for you, your spouse if you are married and file a joint return, and each dependent (a qualifying child or qualifying relative who meets certain tests). The personal exemption for 2014 is \$3,950.

But the total personal exemptions to which you are entitled will be phased out, or reduced, by 2 percent of the amount that your AGI exceeds the threshold for your filing status. The threshold amounts for the personal exemption phaseout are the same as for itemized deductions.

Even when federal income tax rates are the same for you in both years, accelerating deductible expenses into 2014 and/or deferring income into 2015 or later years can provide a longer period to benefit from money that you will eventually pay in taxes.

The table on the next page provides the federal income tax rates for 2014:




2014 Tax Rates Filing Status

Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately
Ordinary Income Brackets				
	<i>Of the amount over:</i>	<i>Of the amount over:</i>	<i>Of the amount over:</i>	<i>Of the amount over:</i>
10%	\$0 to \$9,075	\$0 to \$12,950	\$0 to \$18,150	\$0 to \$9,075
15%	\$9,075 to \$36,900	\$12,950 to \$49,400	\$18,150 to \$73,800	\$9,075 to \$36,900
25%	\$36,900 to \$89,350	\$49,400 to \$127,550	\$73,800 to \$148,850	\$36,900 to \$74,425
28%	\$89,350 to \$186,350	\$127,550 to \$206,600	\$148,850 to \$226,850	\$74,425 to \$113,425
33%	\$186,350 to \$405,100	\$206,600 to \$405,100	\$226,850 to \$405,100	\$113,425 to \$202,550
35%	\$405,100 to \$406,750	\$405,100 to \$432,200	\$405,100 to \$457,600	\$202,550 to \$228,800
39.6%	\$406,750	\$432,200	\$457,600	\$228,800

Beware of the alternative minimum tax trap

As mentioned previously, determining whether you are subject to the alternative minimum tax in any given year figures importantly into tax planning.

Every year the IRS ties, or indexes, to inflation the AMT exemption and related thresholds based on filing status. For 2014, the AMT rates, exemptions and phaseouts are as follows:



purposes until 2015. For example, you may defer your 2014 state and local income taxes and real estate taxes – except taxes on rental property, which isn't subject to the AMT.

Also consider deferring into 2015 your miscellaneous itemized deductions, such as investment expenses and employee business expenses.

However, if the AMT will not apply to your taxes in 2014, but could apply in 2015, you may want to prepay some of these expenses to lock in a 2015 tax benefit. Just be careful that your prepayment does not make you subject to AMT in 2014.

If you do not expect to be subject to the AMT in either year, the age-old strategy of deduction “bunching” could apply. If this is expected to be a high year for miscellaneous itemized deductions, consider accelerating next year's expenses into this year.

Or, if this is a low year for these deductions, try to defer these expenses for the rest of the year into next year. This method helps you maximize the likelihood that these deductions will result in a tax benefit.

Exploit long-term capital gains

While avoiding or deferring tax may be your primary goal, to the extent there is income to report, the income of choice is long-term capital gain thanks to the favorable tax rate available.

Short-term capital gain is taxed at your ordinary income tax rate.

If you hold a capital asset for more than one year before selling it, your capital gain is long-term. For most taxpayers, long-term capital gain is taxed at rates no higher than 15 percent. But taxpayers in the 10 percent to 15 percent ordinary income tax bracket have a long-term capital gains tax rate of 0 percent.

Taxpayers whose income exceeds the thresholds set for the relatively new 39.6 percent ordinary tax rate are subject to a 20 percent rate on capital gain. The thresholds are \$406,750 for singles, \$457,600 for married couples filing jointly or for





surviving spouses, \$432,200 for heads of household, and \$228,800 for married couples filing separately.

If the long-term capital gains rates of 0, 15 or 20 percent are not complicated enough, keep in mind that special rates of 25 percent can apply to certain real estate, and 28 percent to certain collectibles. Also, gains on the sale of certain C corporations held for more than five years can qualify for a 0 percent rate. Talk to your tax adviser before you assume the long-term capital gains rate that would apply.

Remember that you can use capital losses, including worthless securities and bad debts, to offset capital gains. If you lose more than you gain during the year, you can offset ordinary income by up to \$3,000 of your losses. Then you can carry forward any excess losses into the next tax year.

However, you should be careful not to violate the “wash sale” rule by buying an asset nearly identical to the one you sold at a loss within 30 days before or after the sale. Otherwise, the wash sale rule will prevent you from claiming the loss immediately. While wash sale losses are deferred, wash sale gains are fully taxable.



It's important to discuss the meaning of nearly, or "substantially," identical assets with your tax adviser.

Contribute to a retirement plan

You may be able to reduce your taxes by contributing to a retirement plan. If your employer sponsors a retirement plan, such as a 401(k), 403(b) or SIMPLE plan, your contributions avoid current taxation, as will any investment earnings until you begin receiving distributions from the plan. Some plans allow you to make after-tax Roth contributions, which will not reduce your current income, but you will generally have no tax to pay

when those amounts, plus any associated earnings, are withdrawn in future years.

Elective deferrals to a traditional 401(k) or similar plans and deductible contributions made to a traditional IRA are limited as follows:

2014 Retirement Plan Contribution Limits		
Type of Plan	Under Age 50	Age 50 and Older*
Traditional/Roth IRA	\$5,500	\$6,500
401(k)/403(b)/457(b)	\$17,500	\$23,000
SIMPLE IRA	\$12,000	\$14,500

*Not all employer plans permit additional contributions by those who are age 50 and over. Other contribution limitations could apply.



You and your spouse must have earned income to contribute to either a traditional or a Roth IRA. Only taxpayers with modified AGI below certain thresholds are permitted to contribute to a Roth IRA. If a workplace retirement plan covers you or your spouse, modified AGI also controls your ability to deduct your contribution to a traditional IRA.

There is no AGI limit on your or your spouse's deduction if you are not covered by an employer plan. If your modified AGI falls within the phaseout range, a partial contribution/deduction is still allowed.

If you would like to contribute to a Roth IRA, but your income exceeds the threshold, consider contributing to a traditional IRA for 2014, and convert the IRA to a Roth IRA in 2015. Be sure to inquire about the tax consequences of the conversion, especially if you have funds in other traditional IRAs.

Note: The provision that allowed an individual who is at least 70½ years old to make a qualified charitable distribution of up to \$100,000 from an IRA directly to a charity expired at the end of 2013, eliminating a tax planning option unless Congress acts to reinstate the provision.





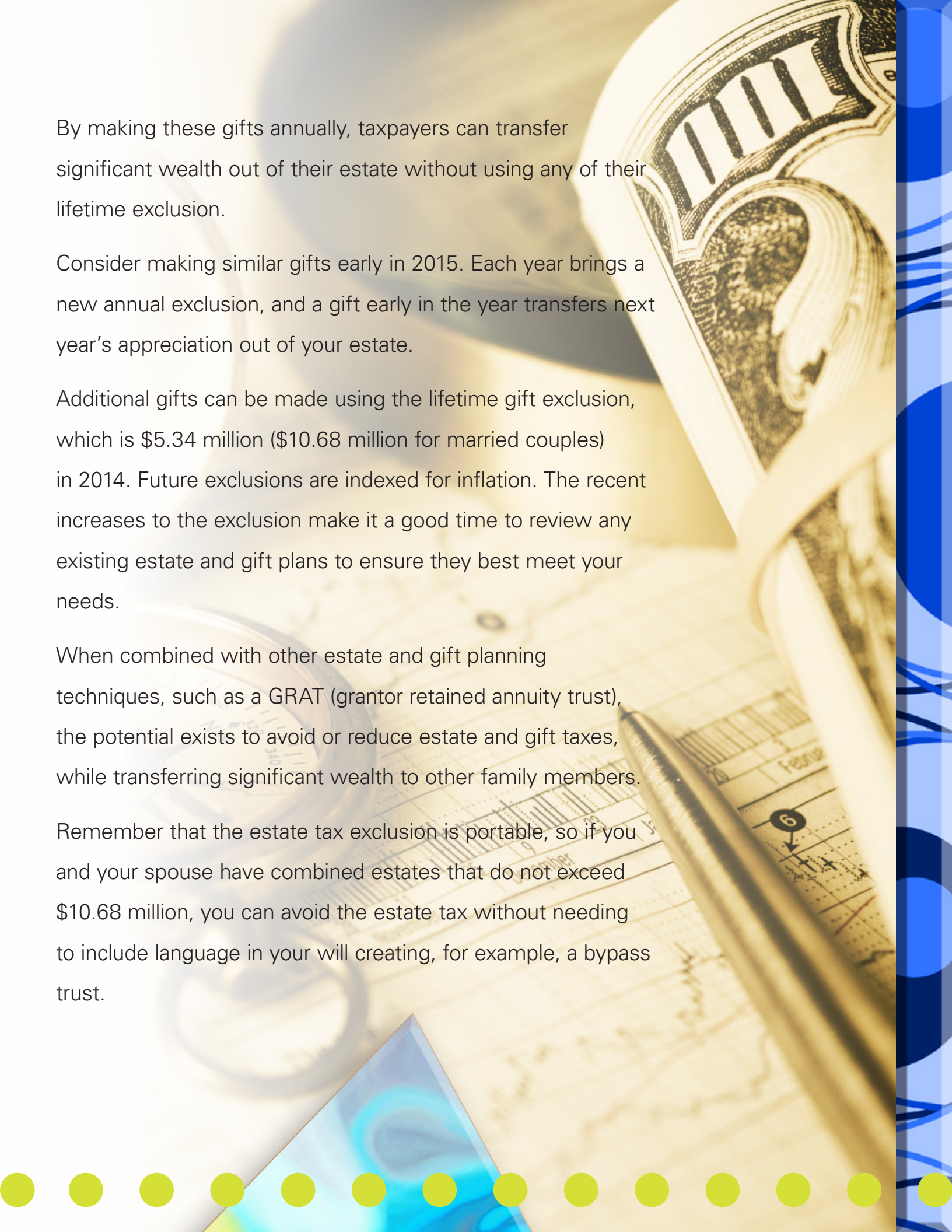
In addition to the SIMPLE IRA shown in the contribution limits table, self-employed individuals can have a Simplified Employee Pension (SEP) plan. They may contribute as much as 25 percent of their net earnings from self-employment, not including contributions to themselves. The contribution limit is \$52,000 in 2014. The self-employed may set up a SEP plan as late as the due date, including extensions, of their 2014 income tax return.

An individual, or solo, 401(k) is another option for the self-employed. For 2014, a self-employed individual, as an employee, may defer up to \$17,500 (\$23,000 for age 50 or older) of annual compensation. Acting as the employer, the individual may contribute 25 percent of net profits, excluding the deferred \$17,500, up to a maximum contribution of \$52,000.

Review estate and gift planning strategies

For 2014, taxpayers are permitted to make annual tax-free gifts of up to \$14,000 per recipient (\$28,000 if married and using a gift-splitting election, or if each spouse uses separate funds).





By making these gifts annually, taxpayers can transfer significant wealth out of their estate without using any of their lifetime exclusion.

Consider making similar gifts early in 2015. Each year brings a new annual exclusion, and a gift early in the year transfers next year's appreciation out of your estate.

Additional gifts can be made using the lifetime gift exclusion, which is \$5.34 million (\$10.68 million for married couples) in 2014. Future exclusions are indexed for inflation. The recent increases to the exclusion make it a good time to review any existing estate and gift plans to ensure they best meet your needs.

When combined with other estate and gift planning techniques, such as a GRAT (grantor retained annuity trust), the potential exists to avoid or reduce estate and gift taxes, while transferring significant wealth to other family members.

Remember that the estate tax exclusion is portable, so if you and your spouse have combined estates that do not exceed \$10.68 million, you can avoid the estate tax without needing to include language in your will creating, for example, a bypass trust.



Stay on top of withholding/ estimated tax payments

If you expect to be subject to an underpayment penalty for failure to pay your 2014 tax liability on a timely basis, consider increasing your withholding between now and the end of the year to reduce or eliminate the penalty. Increasing your final

estimated tax deposit due Jan. 15, 2015, may reduce the amount of the penalty but is unlikely to eliminate it entirely.

Withholding, even if done on the last day of the tax year, is deemed withheld ratably throughout the tax year. Underpayment penalties can be avoided when total withholdings and estimated tax payments exceed the 2013 tax liability, or in the case of higher-income taxpayers, 110 percent of 2013 tax.



Tax Strategies for Business Owners

The main tax issue to keep in mind if you're a business owner is that a number of tax provisions, such as 50 percent bonus depreciation, expired at the end of 2013. In addition, the Section 179 deduction has been limited significantly.

Congress may pass legislation to renew or modify these tax breaks – perhaps retroactively. Of course, you can't count on that possibility, so if you have used these provisions to reduce your taxes in the past, it might be advisable to adjust your withholding and estimated tax payments for 2014.





Special 50 percent bonus depreciation

Through 2013, businesses could use the special bonus depreciation to deduct up to 50 percent of the cost of such assets as new equipment, computer software and other qualifying property placed into service by year-end. The 50 percent bonus depreciation did not apply to used equipment.

Unless Congress acts, it will not be available at all in 2014.

Section 179 deduction

Under Section 179 of the IRS Tax Code, businesses could expense the full cost of new and used equipment, including technology, in the year of purchase instead of over a number of years. They still can. However, the amount they can expense has dropped from an upper limit of \$500,000 in 2013 to \$25,000 in 2014 – a sizable difference.



If your company has nearly reached the \$25,000 expensing limit, you may want to postpone further purchases until 2015.

The 2014 limit on equipment purchases qualifying for Section 179 treatment is \$200,000. After a business reaches the maximum amount, the available tax deduction phases out on a dollar-for-dollar basis. In other words, once a business buys \$225,000 of equipment, the deduction is reduced to zero.

You should monitor your company's total purchases to prevent the phaseout.



Repair regulations

Although materials and supplies may seem immaterial by themselves, cumulatively, they can have a huge effect on taxable income – either positive or negative – depending on how they are managed.

It's important for business owners to be aware of tax laws governing materials and supplies so that they can deduct as much as possible up front rather than capitalize and depreciate over time. The relevant tax laws are in the final repair regulations that became effective on Jan. 1, 2014.

- The basic definition of materials and supplies is tangible property used or consumed in your business operations that is not inventory and that meets one or more of the following statements:

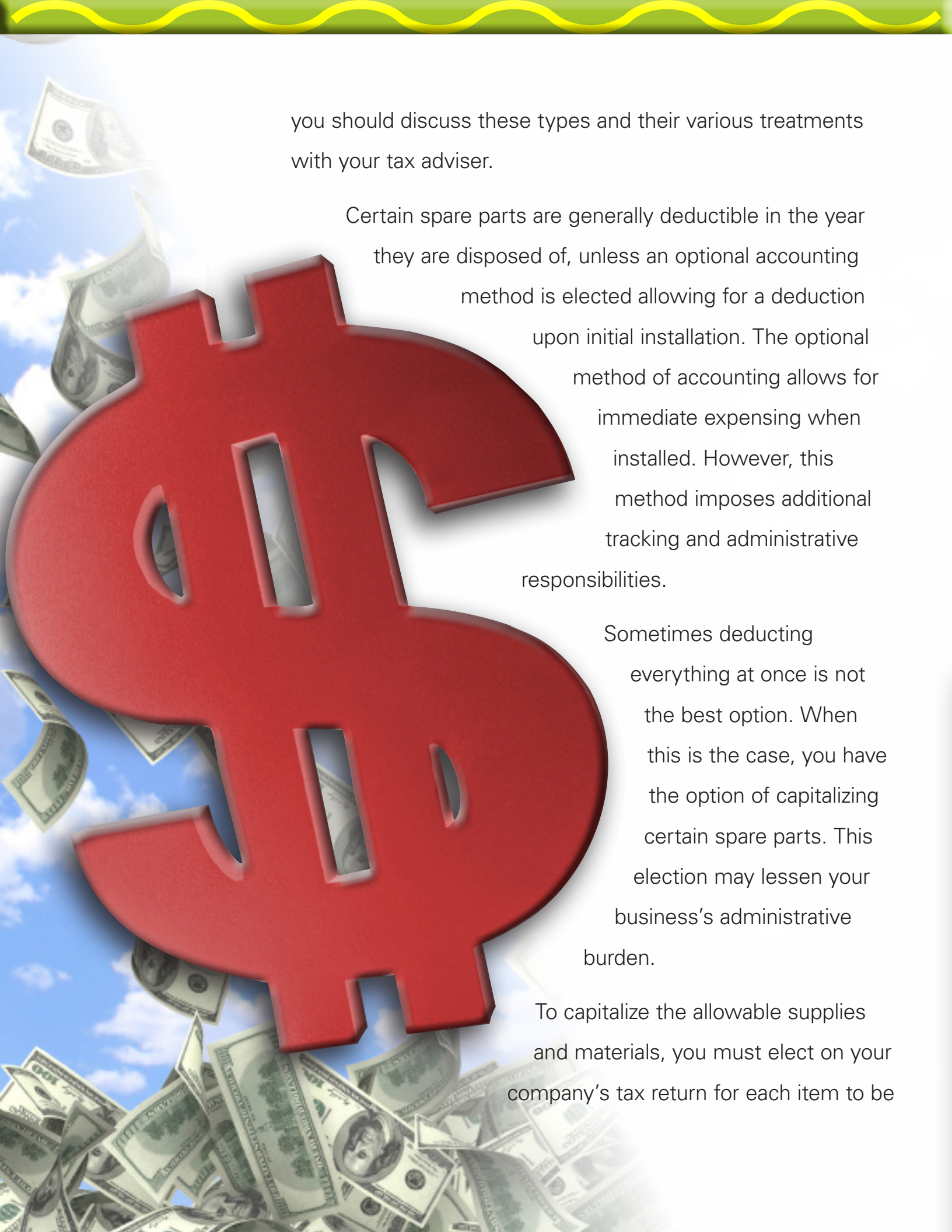


- ▲ It was acquired to maintain, repair or improve a unit of property owned, leased or serviced by the taxpayer and was not acquired as any single unit of property.
- ▲ It consists of fuel, lubricants, water and other similar items that are reasonably expected to be consumed within 12 months or less.
- ▲ It is considered a unit of property with an economic useful life of 12 months or less, beginning when the unit is first used in the business operations.
- ▲ It is a unit of property with an acquisition or production cost of \$200 or less.
- ▲ It is specifically identified in the *Federal Register* or *Internal Revenue Bulletin*.

If your business was previously in compliance with the temporary regulations, you may notice that you were given a slight break with the increase in the previous \$100-or-less limitation to \$200.

A distinction between various types of materials and supplies dictates their particular treatments. Because of the complexity,





you should discuss these types and their various treatments with your tax adviser.

Certain spare parts are generally deductible in the year they are disposed of, unless an optional accounting method is elected allowing for a deduction upon initial installation. The optional method of accounting allows for immediate expensing when installed. However, this method imposes additional tracking and administrative responsibilities.

Sometimes deducting everything at once is not the best option. When this is the case, you have the option of capitalizing certain spare parts. This election may lessen your business's administrative burden.

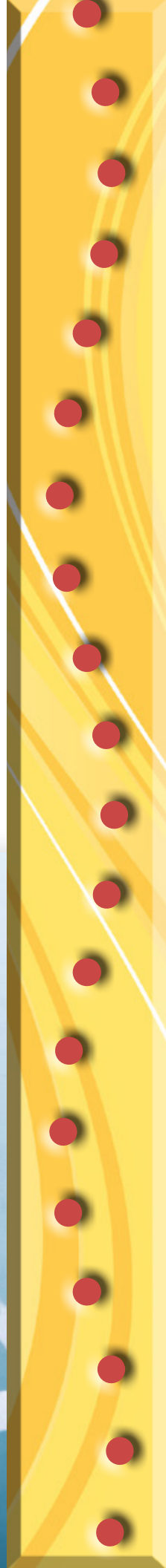
To capitalize the allowable supplies and materials, you must elect on your company's tax return for each item to be


capitalized in the year the item is placed in service. But use caution in making this decision because it may not be revoked unless you file a request for a private letter ruling, which is usually quite expensive to obtain.

These rules are numerous and complicated, so consulting with your tax professional is highly recommended.

Bonuses and tax-deductible contributions

If you own a closely held C corporation, you may want to pay bonuses and make profit-sharing contributions in 2014 if you have had a profitable year. Making these decisions now will help to reduce your corporate income tax.





You may also avoid exceeding the \$250,000 threshold that triggers a 20 percent accumulated earnings tax penalty. Of course, if you have a strong business purpose for allowing your earnings to accumulate, you should document the reason in your corporate minutes. For example, you may be planning to buy expensive new equipment or add a branch office.

Conclusion

As the 2014 tax season approaches, taxpayers have a lot of questions. Will expired tax provisions be reinstated? If so, will they apply retroactively to the beginning of the year? Will they be altered? Will new tax laws make it through the legislative process?

And, most importantly, how will these decisions affect your taxes?

These are legitimate concerns.

Unfortunately, no one can predict the future.

But we can offer you the reassurance that our tax professionals will diligently watch the tax landscape for pending legislation that could have an impact on your taxes. Your safest course of action in the midst of uncertainty is to remain in close communication with your tax adviser for the latest guidance.



The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation.

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