2014 TAX HIGHLIGHTS

On December 19, 2014, the president signed the **"Tax Increase Prevention Act of 2014**". This law retroactively extended, through December 31, 2014, many items that had previously expired December 31, 2013. Below is a highlight of items that were extended through December 31, 2014:

An "above the line" deduction for **higher education expenses** of up to $4,000 is allowed in 2011 through 2014 for eligible tuition and fees. This deduction is not available if the student's expenses are used for the HOPE tax credit (now known as the American Opportunity Tax Credit) or Lifetime Learning Credit. The deduction phases out for modified adjusted gross income exceeding $130,000 for joint filers and $65,000 for single filers. Married separate filers are not eligible for this deduction. This has not been extended to 2015.

If you are a **K-12 teacher, teacher aide, principal, or counselor**, you may deduct up to $250 of out-of-pocket expenses for classroom supplies. Because this deduction is allowed in computing adjusted gross income, you do not have to itemize to claim the deduction. This has not been extended to 2015.

Taxpayers over 70 ½ can **contribute to public charities directly from their IRA's** in 2014. This has not been extended to 2015. The donation will count toward their minimum distribution. This is done without recognizing income and without taking a charitable donation. This may help people when the minimum distributions make their social security benefits taxable and/or when they do not itemize deductions.

Sales Tax is deductible for 2014. This has not been extended to 2015. You can deduct state and local sales tax in lieu of state income tax. This will help itemizers in states with no income tax, like Florida, Texas and a few others. It may help North Carolina residents if the sales tax is larger than your state income tax. We will have tables to use for your sales tax deduction based on your income, *but will need to know the amount of sales tax paid on big ticket items like automobiles, boats, etc*. to add to the allowed table amount.

Private Mortgage Insurance (PMI) premiums paid in 2007 through 2014 in connection with the acquisition of your home will be deductible as interest. This deduction phases out for taxpayers other than married filing separate with AGI over $100,000 and is completely phased out if AGI exceeds $109,000. This only applies to policies issued **AFTER 2006**. This has not been extended to 2015.

Nonbusiness Energy Property Credits are allowed for the purchase of qualified energy efficiency improvements such as advanced main air circulating fans, natural gas, propane, oil furnace or hot water boiler, windows, insulation material, exterior doors, storm windows, high efficiency home heating and air-conditioning systems, etc. that meet certain energy efficiency standards. The credit is generally 10% of the cost and is capped at $500 for 2014. This credit was available in 2009 and 2010 at 30% of the cost and limited to $1,500. The 2014 credit, if any, must be reduced by any credit taken in prior to 2014. The credit will also apply to biomass (corn, wood pellets, etc) fuel stoves. Homeowners can rely on the manufacturer's certification that the products qualify for the credit so **please make sure you get a certificate.** After May 31, 2009 we cannot simply rely on the Energy Star rating, but must have the manufacturer's certificate and the improvement must be for your principal residence. This credit has not been extended to 2015.

The maximum amount of **equipment purchases** that can be expensed (currently deducted instead of being depreciated over a period of years, better known as 179 deduction) in 2014 is $500,000. This deduction may be limited due to income. Heavy SUV's that have loaded vehicle weights between 6,000 and 14,000 pounds and placed in service will qualify for up to $25,000 of expensing. The 50% "bonus" depreciation was also brought back for **new assets** bought and placed in service in 2013 and 2014. The "bonus" amount and Section 179 depreciation in excess of $25,000 are not allowed for North Carolina. 85% of these amounts not allowed will have to be added back to income and then deducted equally over a five year period. The bonus also allows for an extra $8,000 to be expensed for new vehicle weighing less than 6,000 pounds purchased in 2013 and 2014. **The "bonus" depreciation has not been extended into 2015. The section 179 limit will be $25,000 for 2015.**

For 2010 through 2014, **"qualified real property",** certain leasehold improvement, restaurant property or retail leasehold improvements may also qualify for the 15 year straight line cost recovery.

Here are some of the other tax highlights for 2014:

The **Personal Exemption Phaseout** (PEP) has been indexed for inflation for 2014 to $305,050 for joint filers and a surviving spouse, $279,650 for heads of household, $254,200 for single filers, and $152,525 (one-half of the otherwise applicable amount for joint filers) for married taxpayers filing separately. Under the phaseout, the total amount of exemptions that can be claimed by a taxpayer subject to the limitation is reduced by 2% for each $2,500 (or portion thereof) by which the taxpayer's adjusted gross income (AGI) exceeds the applicable threshold.

The **limitation on deductions** has been indexed for inflation for 2014 to $305,050 for joint filers and a surviving spouse, $279,650 for heads of household, $254,200 for single filers, and $152,525 (one-half of the otherwise applicable amount for joint filers) for married taxpayers filing separately. Thus, for taxpayers subject to the limitation, the total amount of their itemized deductions is reduced by 3% of the amount by which the taxpayer's AGI exceeds the threshold amount, with the reduction not to exceed 80% of the otherwise allowable itemized deductions.

For **estate, gift, and generation-skipping transfer (GST) tax purposes**, for individuals dying and gifts, there is a $5,340,000 exemption for 2014 (adjusted for inflation the 2015 exemption is $5,430,000), and the top estate, gift and GST rate is 40%; the portability feature that allows the estate of the first spouse to die to transfer his or her unused exclusion to the surviving spouse remains. For portability to work, the first spouse to die must have an inheritance tax return, Form 706 filed, even if below the filing threshold.

For 2014, the **AMT exemption amounts**, indexed for inflation, have been set at $52,800 for unmarried taxpayers, $82,100 for joint filers and $41,050 for married persons filing separately. The Act also allows certain personal credits to offset the AMT, not just the regular tax.

Additional .9% Medicare Surtax on Earned Income of higher-income individuals. Beginning after 2012, the Health Care Act imposes an additional .9% Medicare Surtax on the amount by which an individual's W-2 wages exceed: 1) $250,000 if married filing a joint return or a surviving spouse, 2) $125,000 if married filing separately, 3) and $200,000 for other individuals. This also applies to a self-employed individual's self-employment income. Employers are required to withhold .9% tax on wages in excess of $200,000. The taxpayer is liable for any tax not withheld and for tax on self-employment income. Husband and wife's wages and/or self-employment income are aggregated on a joint return.

<u>Additional 3.8% Medicare Surtax on Net Investment Income</u> of Higher-Income Individuals. A new 3.8% Medicare Surtax is imposed on the net investment income (e.g., interest, dividends, annuities from non-qualified plans, royalties, rents, certain “passive” income, and long-term and short-term capital gains – less applicable expenses) of certain higher-income individuals. The tax will apply to individuals with modified adjusted gross income (MAGI) exceeding the following “threshold amounts” – $250,000 for married filing jointly; $200,000 if single; and $125,000 if married filing separately. More specifically, the 3.8% Medicare Surtax will be imposed upon the lesser of the individual’s 1) modified adjusted gross income (MAGI) in excess of the “threshold amount,” or 2) net investment income. Moreover, trusts and estates that have net investment income and adjusted gross income (AGI) in excess of a certain “threshold amount” must pay the 3.8% Medicare Surtax, unless the income is timely distributed to beneficiaries. Fortunately, the following types of income are not subject to the 3.8% Medicare Surtax: tax-exempt bond interest; gain on the sale of a principal residence otherwise excluded under the home-sale exclusion rules (i.e., up to $250,000 on a single return, up to $500,000 on a joint return); and distributions from qualified plans (e.g., IRAs, §403(b) annuities, etc.). There may be certain steps you might consider to reduce the amount of income subject to the tax in 2015:

> **Consider Shifting Toward Investments That Generate Tax-Exempt Income**. Investments that generate tax exempt income will become more attractive. For example, tax exempt municipal bond interest will potentially provide higher-income individuals with a double tax benefit: 1) the interest will not be included in the taxpayer’s MAGI thus reducing the chance that the taxpayer will exceed the income thresholds for the 3.8% Medicare Surtax, and 2) the tax-exempt interest itself is exempt from the Medicare Surtax. However, always consider the economics of the investment first!

> **Consider Shifting Toward “Tax-Deferred” Investments.** The 3.8% Medicare Surtax does not apply to earnings generated by a ***tax-deferred annuity*** (TDA) contract ***until the income is distributed.*** Thus, after first considering the economics, investing in a TDA in your higher-income years may allow you to defer the annuity income until later years when your MAGI is below the Medicare Surtax income thresholds.

<u>Medical Deduction Threshold</u> increases from 7.5% To 10% of AGI starting in 2013**.** Previously, you were generally allowed an *itemized deduction* for un-reimbursed medical expenses (including un-reimbursed health insurance premiums) to the extent that the expenses exceed ***7.5%*** of adjusted gross income (10% for alternative minimum tax purposes). ***Starting in 2013,*** the *Health Care Act of 2010* generally increases this threshold from 7.5% of adjusted gross income (AGI) ***to 10% of AGI.*** **<u>Exception For Seniors.</u>** If either you or your spouse is at least age 65 before the close of the tax year, the 7.5% of AGI threshold will continue to apply **through 2016** (whether you file a joint return or separate returns). Since the alternative minimum tax (AMT) treatment of the itemized deduction for medical expenses is not changed under the health care legislation, medical expenses will continue to be deductible for AMT purposes only to the extent they exceed 10 percent of AGI, even if the taxpayer (or the taxpayer's spouse) is age 65 or older.

The following may qualify for the medical expense deduction, but are sometimes overlooked: braces, laser eye surgery, transportation essential for medical care, lodging (but not meals) while away from home primarily for medical care, certain changes to your house to accommodate a physical handicap, certain tuition payments to a special school for a child with severe mental or physical disabilities recommended and documented by a physician, costs of programs and prescription drugs to help people stop smoking, and qualified long-term care services. Also, the standard IRS medical deduction mileage rate for use of your vehicle for essential medical care purposes is 24 cents per mile for 2013 and 23.5 cents per mile for 2014.

Use-It-Or-Lose-It Deadline For Flex Plans has been changed starting in 2013. If you participate in a cafeteria or flexible savings account plan (flex plans), you can generally elect to make a pre-tax salary reduction contribution to the plan. You can then access that account to reimburse yourself tax free for qualified expenditures (e.g., medical expenses, dependent care assistance, adoption assistance). For some *calendar-year* plans, you must clean out your 2014 account by March 15, 2015, or forfeit any funds that aren't used for qualifying expenses, or new for 2013, you may be allowed to carryover $500. The March 15, 2015 deadline applies only to flex plans **that have been amended** to give participants **2½ months after year-end to use up current year contributions** to the plan **or allow a carryover up to $500**. If your calendar-year flex plan has not been amended for either option, you must use up your account by **December 31, 2014, or forfeit the balance.** Also, reimbursements for drugs and medicines (other than insulin) will be tax free only if you have a prescription for the drug or medication. Cafeteria plans will be limited to the annual salary reduction contribution to a health FSA at $2,500.

In 2008 the <u>**"Kiddie" tax**</u> was expanded to apply to any child who is (1) 18 years old at the end of the tax year and their earned income does not equal or exceed one-half of their support; or (2) who is a full-time student over the age of 18, but under 24 at the end of the year and their earned income does not equal or exceed one-half of their support. This applies to unearned income in excess of $2,000 for 2014 and $2,100 for 2015.

<u>**Charitable Contributions**</u> are being scrutinized by the IRS. <u>**ALL**</u> "cash" contributions will now require a cancelled check, letter, receipt, or other written communication from the charity showing their name, the date and the amount of the contribution. If it is over $250, a receipt from the qualified charity is required and it should state as to whether you received anything in return for your contribution. This receipt must be received from the charity by the time you file your return (a cancelled check is not enough), if the return is timely filed. <u>**The receipt must contain the amount of cash and a description of any property other than cash contributed and a statement as to whether the charity provided you with any goods or services in return for your contribution**</u> and a description and good faith estimate of the value of any goods or services, if any, the charity provided to you, or if applicable, a statement that the goods and services consisted solely of intangible religious benefits. 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.

All <u>**Non cash contributions**</u> of clothing and household items must now be in "good or better condition". Non cash contributions generally need to be supported by a receipt which contains the name of the charity, a description of the property and the date and location of the contribution. For noncash donations of property with a value over $5,000, you must have both a qualifying written receipt and an appraisal by a qualified appraiser. If you are claiming a deduction of more than $500 for a vehicle, a boat, or an airplane, you must obtain a Form 1098-C as well as a qualifying written receipt from the charity.

Note, the <u>**rate on dividends and net long-term capital gains is 0%**</u> for taxpayers in the two lowest income tax brackets (below 25%) for 2014. Taxpayers contemplating gifts to family members in these income tax brackets need to take the new top rates into consideration when selecting the gift property. Many taxpayers gifted long-term capital gain property to their children with the intent that the child would realize the gain after age 17 to take advantage of the 0% rate. This planning technique will be eliminated until the child now reaches age 24, unless the child is over age 17 and has earned income that exceeds one-half of their support or is not a full time student.

If you <u>**sell your principal residence**</u> you can generally exclude up to $250,000 for single, and up to $500,000 for joint returns, of gain if you used the residence as your principal residence for 2 out of the preceding 5 years. However, if you sell your principal residence after 2008 and it was used for other than a principal residence (for example as a <u>**vacation home, a second home or as rental property**</u>) and this use occurred before the residence's last use as a principal residence, then a portion of the gain is included in income even where the total gain does not exceed the exclusion amounts. In other words, the gain on the sale of a principal residence could be taxed on a pro-rata basis when there is a period of "non-qualified" use.

Individuals who have not reached age 70 ½ and receive compensation (including alimony) that is includible in gross income may contribute up to $5,500 to **traditional individual retirement accounts (IRAs)**. Individuals who have reached age 50 by year end may make an additional "catch-up" contribution of $1,000 for 2014 and 2015. The contributions to traditional IRAs may be deductible subject to limitations for taxpayers who are participants in employer sponsored retirement plans. Deductible IRA contributions are phased out for "active participants" in an employer-sponsored retirement plan if they have higher levels of income. The IRA deduction phases out for 2014 over $60,000 to $70,000 of adjusted gross income as specially modified for single taxpayers, and over $96,000 to $116,000 for joint filers.

You will generally not be treated as an "active participant" in an employer-sponsored retirement plan merely because your spouse is a participant. However, this exception for a non-active-participant-spouse's IRA deduction phases out over $181,000 to $191,000 of adjusted gross income as specially modified for 2014.

An **early withdrawal penalty of 10%** may apply to distributions taken prior to obtaining age 59 ½. Two of the ways to avoid the 10% penalty tax on pre-age 59 ½ withdrawals are: (1) Penalty-free distributions can be made from IRAs if used to pay for higher education expenses (yours, your spouse's, or your child's or grandchild's); and (2) an IRA payout used within 120 days for purchase costs of a first-time homebuyer's principal residence isn't subject to the penalty tax either. There's a lifetime cap of $10,000 on first time homebuyer withdrawals. There are other exceptions so please let us know if you take distributions prior to age 59 ½ and why you are taking them.

You can also take advantage of a retirement and family wealth builder called the **Roth IRA**. You can make a nondeductible contribution of up to $5,500 annually to a Roth IRA (reduced by your other IRA contributions) for 2014 and 2015. The account builds up tax free and distributions from it are tax free too, if made after a 5-year period for one of several specified reasons (e.g., after reaching age 59 ½). The otherwise allowable Roth IRA contribution phases out if modified adjusted gross income exceeds $181,000 for joint filers and $114,000 for single taxpayers, and is gone when it reaches $191,000 (joint filers) or $129,000 (single taxpayers). Prior to 2010, if your modified adjusted gross income did not exceed $100,000, you could roll over or convert your regular IRAs into Roth IRAs; however this creates a taxable event at the time of rollover. In 2010 and after, there is no income cap of $100,000 and IRA's may be rolled over to a Roth.

The limitation for **401(k) deferrals** is $17,500 for 2014 and $18,000 for 2015 and the "catch up" amount is $5,500 for 2014 and $6,000 for 2015. The deferrals for **SIMPLE plans** are $12,000 for 2014 and $12,500 for 2015 and the "catch up" is $2,500 for both 2014 and 2015.

The **child tax credit** for each qualifying child under 17 (one for whom you can claim a dependency exemption and who is your child or other direct descendant or your eligible foster child) is $1,000 for 2014. The credit begins to phase out when adjusted gross income as modified exceeds $110,000 for joint filers, $75,000 for single filers and heads of households, and $55,000 for married filing separately.

The **Dependent Care Credit** (child care credit) in general is limited to $600 for one child and is limited to $1,200 for more than one child.

For 2014, the **adoption credit** limitation is $13,190 of aggregate expenditures for each child, except the credit for an adoption of a child with special needs is deemed to be $13,190 regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between $197,880 and $237,880. This is no longer a refundable credit, any unused credit will carry over to the next year. Certain documents are required to be attached to the return to support the credit.

Health Savings Accounts (HSA) are a great way to pay for medical expenses on a pre-tax basis. If you have a qualified high-deductible health plan, then you should consider a Health Savings Account. HSAs can save you money on your medical care as well as providing a way to save for future medical expenses with pre-tax dollars. Unlike some other plans, you do not lose HSA funds at the end of the year if not used that year. Unspent balances remain in the account earning interest until you spend the funds. You must have a qualifying plan, then establish the actual HSA account at a qualified institution, and then begin funding the account. To qualify, the high deductible plan must have an annual deductible of at least $1,250 and annual out-of-pocket expenses not to exceed $6,350 for single coverage. For family coverage it must have an annual deductible of at least $2,500 and annual out-of-pocket expenses not exceeding $12,700. For 2014, the contribution is limited to $3,300 for single coverage and $6,550 for family coverage. For 2015 the contribution is limited to $3,350 for single coverage and $6,650 for family coverage. Add $1,000 to these limits if you are at least age 55. A full year's contribution can be made to an HSA as long as the individual is covered under a qualified high deductible plan and the plan is established no later than the first day of the last month of the year. Previously the deduction was prorated for a partial year.

Alternative Energy Equipment has a credit equal to 30% of the cost of energy efficient solar electric systems, fuel cells, solar hot water heaters, geothermal heat pumps and wind turbines. Homeowners can rely on the manufacturer's certification that the products qualify for the credit so **please make sure you get a certificate**.

The **annual exclusion for gifts** is $14,000 for 2014 and 2015. This limit is per individual to unlimited number of recipients each year.

You may be able to claim a **HOPE tax credit or now referred to as the American Opportunity Tax Credit** of up to $2,500 for 2009 through 2016 per student for tuition and related expenses incurred during the first four (formerly two) years of post-secondary education (100% of the first $2,000 of tuition and fees required for enrollment or attendance, and 25% of the next $2,000 paid for each year of post-secondary education). The credit phases out over $160,000 to $180,000 of adjusted gross income as specially modified if you file a joint return ($80,000 to $90,000 for single filers and heads of households). Prior to 2009 the credit was not refundable, but now is 40% refundable if the taxpayer is not subject to "Kiddie tax". It also did not include required course materials (i.e. books) but now does.

If you do not qualify for the HOPE credit, then effective for expenses paid after June 30, 1998 for education beginning after that date, there's also a **Lifetime Learning Credit** of up to $2,000 (previously $1,000) per family (20% of up to $10,000 of tuition and related expenses). You can't claim both credits for the same student. The credit phases out over $107,000 to $127,000 of adjusted gross income as specially modified if you file a joint return and $53,000 to $63,000 for singles.

There is a nonrefundable credit, the **"Saver's Credit"** for eligible contributions to **elective deferral plans or individual retirement accounts**. The maximum credit is $1,000 and is based on filing status and adjusted gross income. The credit phases out between adjusted gross incomes of $36,000 and $60,000 on a joint return, and $18,000 and $30,000 for single filing status.

You may be able to establish a **Coverdell education savings account** (formerly an education IRA) and make nondeductible cash contributions of up to $2,000 a year for each child under age 18. The money builds up tax-deferred and payouts that don't exceed the amount spent on higher education will be tax-free. The contribution limit phases out ratably at modified adjusted gross income between $190,000 and $220,000 for joint return filers ($95,000 and $110,000 for others). You may also want to consider **Section 529 plans** (Qualified Tuition Programs) to help save for education expenses.

In arriving at adjusted gross income, you can deduct up to $2,500 of interest paid on any **qualified education loan**. For 2014 the deduction phases out over $130,000 to $160,000 of adjusted gross income as specially modified if you file a joint return ($65,000 to $80,000 for single filers and heads of households).

If an individual wants to use last year's tax as a safe-harbor amount for **2015 estimated income tax payments**, and if adjusted gross income for 2014 was more than $150,000, they must estimate or withhold 110% of the 2014 tax.

A **Schedule C self-employed person** may deduct as a business expense 100% of the amount paid for medical insurance on himself, his spouse, and his dependents. This is only if not eligible to participate in a subsidized plan. If the deduction is taken as self-employed medical deduction it is not includible in the medical expenses reported as an itemized deduction. In 2014, if a self-employed person receives government assistance for insurance premiums through the exchange they will not be allowed to take the premium as self-employed medical deduction but will be allowed to take the premium as medical expenses reported as an itemized deduction.

The **standard mileage rate** for business driving increased from 56 cents per mile for 2014 to 57.5 cents for 2015. You may claim the cost of parking and tolls if you use the standard rate, but not the cost of fuel and repairs. You may not use this standard method if you claimed accelerated depreciation or expensing on the vehicle.

Business use of **cell phones, PDA's, blackberry's, IPads, tablets and similar devices** have long been under close scrutiny by the IRS. These devices, after 2009 are no longer considered "listed property" and are no longer subject to the strict recordkeeping rules as in prior years. We still suggest that proper documentation of the business use be maintained.

The **Social Security wage base** for 2015 was increased to $118,500 from $117,000 for 2014.

Qualifying small employers that start an **eligible retirement plan** can now claim a credit of 50% of administrative and retirement related education expenses for the first three plan years. The maximum credit is $500 each year.

Small Employers providing health insurance starting in 2010 may be eligible for a new credit on the premiums they pay. Basically, you must have 10 or fewer full time equivalent workers with average wages under $25,000 to get a credit of 35% of the lesser of what it pays for employee coverage or the average group premium for small firms in the state. The percentage falls for companies with more employees and higher pay and no credit is allowed if there are more than 25 full time equivalents or average pay is more than $50,000. In 2014 the credit is up to 50% but the employer must have the group health insurance through the SHOP marketplace (Small Business Health Options Program), and the credit is only available for up to 2 years per employer.

There is a **Health Insurance Requirement** starting in 2014 for individuals and they are required to obtain health insurance. Failure to have health insurance may result in an excise tax for each month that they do not have "qualified heath plan" coverage for themselves and their dependents, unless they qualify for an exemption from the tax. The excise tax will be computed on the personal return. If a person receives a subsidy, they will be required to file a return to reconcile the subsidy even if they are not required to file for income tax purposes. **5 new tax forms were released by the IRS as a result of this act for 2014.** If you received a Form 1095 from any issuer or agency, we MUST have all copies to prepare your tax return. If you do not receive a 1095, we must ask you a number of additional questions about insurance coverage so that we can help you avoid any penalties for failure to have health insurance. Please refer to your organizer for these additional questions. Large employers (100 or more full time employees in 2015) are required to offer a "qualified health plan" starting in 2015 or pay a penalty. Large employers (50 or more full time employees in 2016) are required to offer a "qualified health plan" starting in 2016 or pay a penalty.

Starting in 2014 **Health Insurance Reimbursements by employers** to employees are no longer allowed. Employers may not reimburse employees pre-tax or after-tax for all or a portion of the employee's personal health insurance premium. If the employer does this they will be subject to a $100 per day penalty per employee that they reimburse the employees' health insurance premium. An alternative may be to increase the pay for the employee and then have the employee pay the premiums.

Starting in 2013 there is a new simplified option for claiming the **Home Office Deduction**. The new safe harbor is $5 per square foot up to 300 square feet of qualified space. This method provides an alternative to the calculation, allocation and substantiation of the actual expenses thereby reducing the record keeping burden for those who qualify for the deduction.

Starting in 2013 **Same-sex marriage** couples generally must file using a married filing jointly or filing separately status. Prior years may be amended provided that the statute of limitations for amending the return has not expired. Same-sex couples who are legally married under any state law by December 31, 2014 must generally file a North Carolina income tax return using the same filing status claimed on the federal income tax return. Individuals in a domestic partnership, civil union, or long-term relationship, but not legally married, must claim the filing status of single or, if qualified, head of household or qualifying widow(er).

Effective for taxable years beginning on or after January 1, 2014, the IRS finalized regulations that determine when taxpayers should **capitalize or deduct** as a current expense repairs on tangible property, plus the deductibility of materials and supplies. The general difference is the “unit of property” is now defined differently, and betterment, restoration or new adaptation is now looked at on the individual unit of property.

1099 reporting beginning with tax year 2012 was going to require 1099’s be sent for all payments **for goods and services** of $600 or more **to all firms**, even for purchases from publicly traded companies. This part has been repealed. However, there are other changes for 2011 and future years. Banks are now required to report aggregate gross dollar amount a merchant receives from credit or debit card transactions during the calendar year to the IRS and merchant on a new **Form 1099-K**. There will also be a yes/no question on the business returns asking if you have filed the required 1099’s for your business. If you would normally report payments made in the course of your trade or business to a third party for commissions, services, etc by filing Form 1099-MISC then the payment is not required to be reported if the payment was made using a credit or debit card since they will be reported on the new Form 1099-K.

Stock brokerage houses will now have to report the cost basis of shares sold to the IRS, not just the proceeds. When you sell shares make sure you are telling your broker which shares you want to sell to minimize gain or maximize losses by identifying the ones with the highest basis. You should discuss this with your broker. A standing order, such as to always sell stock with the highest basis, will work if the broker can do this for you.

When you have signatory or other authority over a **foreign bank account** with a value at any time during the year of $10,000 or more you must file Form FinCEN 114 with the IRS in addition to your regular tax return. Starting in 2013 it must be filed electronically. The form is due by June 30th each year and there are penalties for not reporting the account. If you have any authority over a foreign bank account, please let us know. **In addition** to this reporting requirement, you may have to file **Form 8938, Statement of Specified Foreign Financial Assets** with your regular income tax return this year. Generally, if you have a financial account (securities, brokerage, savings, demand, checking, mutual fund, insurance or annuity policy with cash surrender value, an interest in a foreign pension plan or foreign deferred compensation plan, deposit or time deposit) maintained by a foreign financial institution or a stock or security issued by a foreign person, any interest in a foreign entity or any financial instrument or investment contract where the issuer is not a U. S. person, that the aggregate value exceeds $50,000 on the last day of the tax year or more than $75,000 at any time during the year ($100,000 on the last day of the tax year for a married couple or $150,000 at any time during the year) then you must file this new form. Information we will need includes the account number, name of financial institution and the maximum value during the year. If the holdings are in a financial institution that is not foreign, then you do not have to report the holdings. For example, a foreign stock in a U. S. brokerage account would not have to be reported. **Penalties for not reporting are severe and for Form 8938 start at $10,000 minimum with a maximum of $50,000.**

NORTH CAROLINA

North Carolina passed significant changes in the tax law for years beginning in 2014. Generally the new law will lower individual and corporate income tax rates and repeals many individual deductions and several individual and corporate credits. It also repeals the estate tax, and please remember that North Carolina repealed their Gift Tax for gifts made on or after January 1, 2009.

For more information and some background you might want to visit the North Carolina Association of CPA's sponsored website, http://www.tarheeltaxreform.com/.

Individuals will now have a **flat income tax rate** after 2013. The flat rate for 2014 will be 5.8% and then 5.75% for 2015. For 2013 rates range from 6% up to 7.75%.

The $2,000 (or $2,500 if income is low enough) **personal exemption** has been repealed and no deduction is allowed beginning in 2014.

The **standard deduction** amounts have been increased from $6,000 to $15,000 for joint filers, $4,400 to $12,000 for Head of Household, $3,000 to $7,500 for Single or Married filing separately.

Itemized deductions will be limited for NC after 2013 to the allowed charitable contributions on your federal return, the qualified residence interest and real estate taxes up to a combined maximum of $20,000 as reported on your federal return. No other itemized deductions will be allowed.

North Carolina has allowed certain **subtractions from federal taxable income** and many have been **repealed**. The items that have been repealed include the following:

> $50,000 nonpassive business income deduction
>
> The up to $4,000 subtraction for state, local or federal retirement plans and the up $2,000 subtraction for distributions from other qualified retirement plans.
>
> The $35,000 subtraction for severance wages received as a result of involuntary termination.
>
> The deduction of amounts added to federal AGI because a credit was elected in lieu of a deduction on the federal return. For example, education credits, tip credit, etc.
>
> The up to $2,500 ($5,000 on joint returns) subtraction for amounts contributed to NC 529 plans.
>
> The $250 subtraction for eligible volunteer firefighters and rescue squad workers.
>
> The subtraction for amounts paid to an individual by the state as compensation for erroneous conviction or imprisonment.

North Carolina has allowed certain **subtractions from federal taxable income** and many have **NOT been repealed**. The items still allowed as subtractions include the following:

> Interest income from obligations of the United States or its possessions, North Carolina and nonprofit educational institutions organized or chartered under the laws of NC.
>
> Gain from the dispositions of obligations issued before July 1, 1995 to the extent the income is exempt from tax under NC law.

Social Security benefits and Railroad Retirement benefits to the extent included in the federal adjusted gross income.

The deductions for retirement benefits received from vested NC State government, NC local government, or federal government retirees pursuant to the Bailey settlement are still available.

Refunds of State, local and foreign income taxes included in federal adjusted gross income.

Amounts received during the year from one or more State, local, or Federal government retirement plans to the extent the amount is exempt from tax pursuant to the Bailey, Emory or Patton cases.

Certain income received by enrolled members of Indian tribes.

The amount by which basis of property under NC income tax rules exceeds the basis of the property under the Internal Revenue Code in the year the taxpayer disposes of the property.

The deductions for 20% of any bonus depreciation add backs or Section 179 depreciation deduction add backs that were included in income for NC in prior years.

North Carolina has also required certain **additions to federal taxable income** and includes the following:

Interest on obligations of states other than NC or political subdivisions or agencies of such states.

The amount an S corporation shareholder's income is reduced on the federal return by the built-in gains tax.

The amount of the domestic production deduction allowed on the federal return.

The amount by which the basis of property for federal income tax purposes exceeds the basis of the property for NC income tax purposes in the year of disposition.

85% of any depreciation deduction allowed on the federal return for bonus depreciation or excess Section 179 depreciation (then you get to deduct this amount over the next 5 years).

The following **credits have been repealed or expired** for years after 2013:

Dependent care credit.

$250,000 (single) and $500,000 (married) maximum credit for real estate conservation easements.

Credit for disabled individuals.

Credit for charitable contributions by non itemizers.

Credit for educational expenses of special needs children.

Credit for construction of multifamily dwelling units for handicapped persons.

Credit for construction of poultry composting facilities.

Up to $1,000 credit for property taxes paid on farm machinery.

Credit for crops donated to nonprofit organizations.

Credit for up to $2,500 for the cost of conservation tillage equipment.

Credit for long-term care insurance.

Earned Income Credit.

Adoption expense credits.

For 2014 NC allows a **child credit** of $100 per qualifying child if federal adjusted gross income is less than $100,000 on a joint return, $60,000 for single, $50,000 for married filing separate and $80,000 for head of household. The credit increases to $125 per qualifying child if federal adjusted gross income is less than $40,000 on a joint return, $20,000 for single, $20,000 for married filing separate and $32,000 for head of household.

CORPORATE CHANGES

C corporation's income tax rates have been reduced from 6.9% to 6.0% for years beginning in 2014 and to 5% for years beginning after 2014. If NC meets certain revenue targets, the corporate rate will be reduced to 4% for years beginning in 2016 and to 3% for years beginning in 2017.

The following **credits have been repealed or expired** for years after 2013:

Credit for Savings and Loan supervisory fees charged by the Commissioner of Banks.

$500,000 maximum credit for real estate conservation easements.

Credit for the development of interactive digital media.

Credit for certain telephone subscriber line charges at reduced rates to low-income residential consumers

Credit for construction of multifamily dwelling units for handicapped persons.

Credit for construction of poultry composting facilities.

Credit for crops donated to nonprofit organizations.

Credit for up to $2,500 for the cost of conservation tillage equipment.

E-Verify is now required for all North Carolina employers with 25 or more employees.

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