

Year-End Planning Strategies to Lower Your Taxes

Article Highlights

- Retirement Plan Strategies
- Deduction Strategies
- Gifting Strategies
- Charitable Contribution Strategies
- Low- & High-income Year Strategies

The following is a checklist that might help you save taxes if you act before the year's end. Not all strategies will apply to everyone, but many clients will benefit from more than one item. Not all available strategies are listed either.

- If you are over 70 ½ years of age and have retirement plans, make sure you take the required minimum distribution before the end of the year. If you turned 70 ½ in 2014, you can wait until next year to take your distribution, provided you take it before April 2, 2015. You will still need to take another distribution for 2015, so if you delay the 2014 distribution until 2015, you will essentially be doubling your distributions for that year. The penalty for failing to make the proper distribution is an additional tax equal to 50% of the under-distribution amount.
- If you anticipate having a tax liability for 2014, you can increase your withholding for the balance of the year and eliminate or reduce underpayment penalties. Withholding is treated as paid evenly throughout the year, so additional withholding toward the end of the year can reduce penalties in earlier underpaid quarters as well.
- If you have stocks that have declined in value, you may wish to sell them before the end of the year and use the loss to offset other gains for the year or to produce a deductible loss. The net capital loss on a tax return is limited to \$3,000 for the year, but any excess loss carries over to future years. You can repurchase them after 30-days have passed and avoid the wash sale rules.
- If a job-related bonus is expected to be paid around the end of the year, you might be able to defer that income into the following year if that is appropriate in your situation, such as when you expect less 'other' income next year. See if your employer is willing to put off payment until just after the first of the year.
- If itemizing deductions, a taxpayer can increase those deductions for the year by prepaying certain taxes. Consider one or both of the following:
 - Prepay the next installment of your property taxes before the end of 2014, or
 - Pay your 4th quarter state tax estimate in December.

Caution: This strategy will not work if you are subject to the Alternative Minimum Tax (AMT), since taxes are not deductible for AMT purposes.

- Reduce your gift and estate taxes by making gifts before the year's end. For 2014, the amount you may give without creating a gift tax filing requirement is \$14,000 per person. You can make gifts each year to an unlimited number of individuals, but you can't carry over unused annual gift tax exclusions from one year to the next. If you have a substantial gain in a stock or other asset you want to sell, but don't want the resulting tax liability, there are a couple of techniques you can employ to simply give away the appreciated asset and let the recipient take the gain:

- Charitable Gift – Consider replacing your cash charitable gifts with gifts of appreciated property. By giving the asset to your favorite charity, you receive a charitable contribution deduction equal to the fair market value of the gift and at the same time avoid having to report the gain from selling the asset on your return. However, the maximum deduction for gifts of this type can be as low as 20% or 30% of AGI as compared to 50% for cash gifts. Caution: If the value of the stock you are considering gifting is less than what you paid for it, sell it, take the loss on your return, and then contribute the cash to the charity.
 - Gifts to Individuals – Giving a gift of appreciated property to an individual (donee) transfers the gain from that property to the donee. This can work to your advantage by gifting the appreciated asset rather than giving the donee cash. Caution, this strategy will not work for children who are subject to the kiddie tax.
- If you are retired and taking IRA distributions, make sure that you are maximizing your withdrawal with respect to your tax bracket. It may be tax-effective to actually withdraw more than the minimum required by law. If you receive Social Security benefits, IRA distributions can sometimes be planned to minimize the taxability of this income.
 - If you are marginally able to itemize each year, it may be appropriate to “bunch” deductions in one year and then claim the standard deduction in the alternate year. For example, by paying two years of church tithing or pledges to a charitable organization all in one year, deducting the total in that year, and the next year contributing nothing and taking the standard deduction, the combined tax for the two years may be less than if a contribution was made in each year.
 - If your taxable income is low or a negative amount for the year, it may be appropriate to convert some or all of your taxable traditional IRA to a Roth IRA for little or no tax cost. Roth IRAs provide the benefit of tax-free income for retirement.
 - If you qualify for one of the higher education tax credits and have not paid enough tuition during the year to achieve the maximum credit, the law allows you to prepay tuition for an academic period beginning within the first three months of the next year and claim the tuition for the current year’s credit.
 - If you own an interest in a partnership or S corporation, you may need to increase your basis in the entity so you can deduct a loss from it for this year.
 - Business clients also should consider making expenditures that qualify for the \$25,000 business property expensing (Sec 179) election.
 - If taxed by the AMT, you might consider deferring payments that would qualify as a “miscellaneous” itemized deduction, since you will receive no benefit for those expenses. On the other hand, if you are not taxed by the AMT, consider accelerating those expenses.
 - If you’re thinking of making non-cash charitable donations, do so before the end of the year to maximize your charitable deduction. And remember that, if you write a check to make a charitable donation, it must be mailed by December 31 to count as a current-year deduction.

The foregoing is a brief summary of several year-end tax strategies. However, you are cautioned not to implement them without first determining how they might impact your particular set of circumstances. Please call for a year-end tax planning appointment if you would like assistance from this office with comprehensive year-end tax planning.

Tips to Avoid Tax Penalties for 2014

Article Highlights:

- Under-distribution penalty
- Required minimum distributions
- Underpayment penalties
- Withholding

Thanksgiving marks the beginning of the holiday season and the time when we begin to think about family get-togethers, holiday gift sharing and parties.

But don't overlook what comes right after the holidays: tax season. And don't overlook a couple of things you can do now to avoid or reduce potential penalties on your 2014 tax return.

Under-Distribution Penalty - If you are over 70-1/2 years of age, don't forget to take your required minimum distribution (RMD) from your IRA account; otherwise you could face a penalty equal to 50% of what you should have taken as a distribution in 2014. The RMD is based on your age and the balance of the IRA account on December 31, 2013. Please call this office for the distribution percentage for your age.

If you just turned 70-1/2 in 2014, you can delay your first RMD until 2015 (but you must take it by April 1). However, that means you will have to double up your distributions in 2015, taking the one for 2014 and the one for 2015. This may or may not be beneficial taxwise, depending on your tax brackets in each year. If 2014 was your retirement year, your income tax bracket may be higher than it will be for 2015, so it may be advantageous taxwise to delay the 2014 distribution until 2015.

Underpayment Penalty - If you are a wage earner and have not been having enough income tax withheld from your paycheck to meet your tax liability for 2014, or if you also have taxable income from other sources, you may be facing the possibility of underpayment penalties. If your advance payments toward your 2014 tax liability, through withholding and estimated tax payments, are less than 90% of your 2014 tax liability or 100% (110% for high-income taxpayers) of your prior year tax liability, you will be hit with an underpayment penalty. There is no penalty if your tax liability is less than \$1,000. The underpayment penalty is figured on a quarterly basis, so making an estimated tax payment late in the year will not reduce the penalties from earlier in the year. However, wage withholding is deemed paid evenly throughout the year, allowing you to mitigate underpayments earlier in the year by increasing your withholding late in the year. If your state has a state income tax, be sure to consider whether you also need to adjust your state income tax withholding to offset under-withholding earlier in the year to avoid or reduce a state underpayment penalty.

If you have questions related to either of these issues, please give this office a call.

Avoid Tax Surprises: Report Life Changes to the Marketplace

Article Summary:

- Reasons for reporting life changes to the insurance marketplace
- Changes that should be reported
- How to report changes
- Applying for 2015 coverage

If you are enrolled in insurance coverage through a government Health Insurance Marketplace, it is important that you report certain changes to the marketplace when they happen, such as changes to

your household income or family size and other issues that affect your eligibility for and the amount of the advance premium tax credit (APTC). The APTC is used to reduce the amount you must pay for your monthly health insurance premiums.

Timely reporting can also help to eliminate complications on your tax return so the marketplace can properly report your coverage premiums and APTC when there has been a change in family circumstances such as a divorce or legal separation. The marketplace will report the premium cost and APTC on Form 1095-A (to be issued in January 2015) so the APTC can be reconciled to the premium tax credit you are entitled to on your tax return. Keeping the marketplace informed of changes throughout the year can help avoid unpleasant surprises when your tax return is prepared.

Changes in circumstances that you should report to the marketplace include:

- Getting married or divorced
- Having a child, adopting a child, or placing a child for adoption
- Changes in income
- Getting health coverage through a job or a program like Medicare or Medicaid
- Changing your place of residence
- Having a change in disability status
- Gaining or losing a dependent
- Becoming pregnant
- Experiencing other changes that may affect your income and household size
- Other changes to report include change in tax filing status; change of citizenship or immigration status; incarceration or release from incarceration; change in status as an American Indian/Alaska Native or tribal status; and correction to name, date of birth, or Social Security number.

There is still time left this year to report changes. Reporting changes will help you avoid getting too much or too little advance payment of the premium tax credit. Getting too much means you may owe additional money or get a smaller refund when you file your taxes. Getting too little could mean missing premium assistance to reduce your monthly premiums. Therefore, it is important that you report changes in circumstances that may have occurred since you signed up for your plan.

Reporting Changes - To report changes to your 2014 coverage, which ends December 31, 2014, log into your account on the marketplace website, select your existing 2014 application, and choose "Report a life change" from the menu. For additional assistance, check the website for your marketplace.

Applying for 2015 Coverage - After November 15, when you log into your account, you'll see a 2015 application pre-filled with some information from 2014. If you make updates to the information, you'll get your new eligibility results for 2015 coverage. You can then pick a plan and enroll.

If you have questions about the premium tax credit or reconciling the credit's advance payments, please give this office a call.

Recordkeeping Tips to Keep the IRS Away

Article Highlights:

- Tax Recordkeeping Tips
- Receipts
- Auto Deductions
- Gifts

- Business Equipment
- Ordinary and Necessary
- Meals & Lodging
- Entertainment
- Home Office

With the ever-increasing complexity of our tax system, it is commonplace for many small businesses to make mistakes with bookkeeping and filing. One way to avoid making errors is to be aware of the most commonly encountered pitfalls. Here are some tips to help keep the proper records.

- **Receipts** – Even though the IRS does not require receipts for meal and entertainment expenses of less than \$75, it is nevertheless wise to hang onto them. There is no better documentation than a credit card receipt since it has all the expense information required. All you need to do is write on the slip the purpose of the event, the individual you were with, and your business relationship with that person.
- **Auto Deductions** – Generally, small businesses use either the actual expense method or the optional mileage method of deducting the business use of a vehicle, and both must account for any personal use of the vehicles, including commuting. When using the actual expenses method, the deductible business portion of the expenses is determined by multiplying the total expenses by the percentage of business use, which is found by dividing the business miles driven by the total miles driven. When using the optional mileage method, the business miles are multiplied by the IRS published standard mileage rate, which is 56 cents per mile for 2014. So, regardless of the method used, make sure you keep track of the total and business use miles for the year since it is required for either option.
- **Gifts** – Do not overspend on gifts to clients and business associates. The IRS will allow a deduction of only up to \$25 worth of gifts to any individual per year. Being too generous will cost you. With only that first \$25 per recipient considered a deductible business expense, the rest will be nondeductible. For deductible gifts, be sure to keep a copy of the purchase receipt and note on it the business purpose for making the gift or the benefit you expect to receive, as well as the name of the person to whom you gave the gift, his/her occupation or title, or some other designation that will establish your business relationship to the individual.
- **Business Equipment** – Since equipment is considered a capital expenditure, it has to be depreciated. That is why lumping equipment together with supplies is not a good idea. This is true even when you elect to expense equipment purchases under Sec. 179. If the purchases are not reported properly, the IRS could rule that the expense was improperly characterized. If that is the case, you would not be entitled to the deduction claimed on your return. There could be other repercussions, leaving you with no current deduction at all.
- **Ordinary and Necessary** – To be deductible, an expense must be ordinary and necessary. An expense is “ordinary” if it is customary and conventional for the taxpayer’s line of business. A “necessary” expense is helpful in the taxpayer’s business; but it need not be indispensable.
- **Meals and Lodging** – When traveling for business, lodging is 100% deductible but the away-from-home meals deduction is limited to 50% of the cost. So, if the meals are charged to a hotel room, they must be accounted for separately, and keeping a copy of the statement from the hotel that shows the charges, as well as a credit card receipt or other payment receipt, is advisable.
- **Entertainment at Sports Events and Theaters** – When entertaining customers at sporting events and theaters, the deduction is limited to 50% of the face value of the ticket. The cost of the

entertainment must be “directly related to” or “associated with” business or the production of income.

- **Home Office Deductions** – There are two methods for deducting the business use of a home. One is the conventional method of prorating the expenses (with some limitations) of the home by multiplying the allowable expenses times the business use square footage divided by the total square footage of the home. The other method, referred to as the simplified method, allows \$5 per square foot deduction (maximum 300 square feet) without having to keep records of expenses. Both methods have the same eligibility requirements.

Every business is unique, so if you need assistance in setting up your recordkeeping system or need further clarification on any of the topics discussed, please call this office.

Failed to Report Your Foreign Financial Assets? The IRS’s Streamlined Voluntary Filing Compliance Program May Be for You.

Article Summary:

- How to come into compliance with foreign financial asset reporting
- Non-willful conduct certification
- Miscellaneous offshore penalty
- Possibility of subsequent audit

If you are a U.S. taxpayer who has not reported your foreign financial assets on your tax returns and you can certify that the reporting failure and nonpayment of all tax due related to those assets did not result from willful conduct on your part, you can come into compliance with the IRS by doing the following:

- (1) For each of the most recent three years for which the U.S. tax return due date (including extended due dates) has passed, file amended tax returns, together with all required information returns (e.g., Forms 3520, 3520-A, 5471, 5472, 8938, 926, and/or 8621). These three years are referred to as the “covered tax return period”;
- (2) For each of the most recent six years for which the FBAR (foreign bank account report) due date has passed, file any delinquent FBAR returns (FinCEN Form 114, previously Form TD F 90-22.1). These six years are referred to as the “covered FBAR period”; and
- (3) Pay a 5% miscellaneous offshore penalty plus any tax and interest due on the amended returns. The full amount of the tax, interest, and miscellaneous offshore penalty due in connection with these filings should be remitted with the amended tax returns.

Penalty – The miscellaneous offshore penalty is equal to 5% of the highest aggregate balance/value of your foreign financial assets during the years in the “covered tax return period” and the “covered FBAR period.” For this purpose, the highest aggregate balance/value is determined by aggregating the year-end account balances and year-end asset values of all the foreign financial assets and selecting the highest aggregate balance/value from among those years.

After you have completed the streamlined filing compliance procedures, you will be expected to comply with U.S. law for all future years and file returns according to regular filing procedures.

Returns submitted under the streamlined offshore procedures will not automatically be subject to IRS audit, but they may be selected for audit under the IRS’s audit selection processes applicable to any U.S. tax return. If selected, they will be checked for accuracy and completeness, just as with any other audit.

If errors or omissions are discovered, you could be subject to additional civil penalties, and even criminal liability, if appropriate.

This is a simplified overview of the streamlined compliance program; not all taxpayers will qualify. Please call this office for additional details and assistance with bringing you into compliance with your foreign asset reporting requirements.

Writing Off Your Start-Up Expenses

Article Highlights:

- Startup expenses first-year write off
- Expense amortization
- First-year write-off limitations
- Qualifying expenses

Business owners, especially those operating small businesses, may deduct up to \$5,000 of their start-up expenses in the first year of the business's operation. This is in lieu of amortizing the expenses over 180 months (15 years).

Generally, start-up expenses include all expenses incurred to investigate the formation or acquisition of a business or to engage in a for-profit activity in anticipation of that activity becoming an active business. To be eligible for the election, an expense also must be one that would be deductible if it were incurred after the business actually began. An example of a start-up expense is the cost of analyzing the potential market for a new product.

As with most tax benefits, there is always a catch. Congress put a cap on the amount of the start-up expenses that can be claimed as a deduction under this special election. Here's how: If the expenses are \$50,000 or less, you can elect to deduct up to \$5,000 in the first year, plus you can amortize the balance over 180 months. If the expenses are more than \$50,000, then the \$5,000 first-year write-off is reduced dollar-for-dollar for every dollar start-up expenses exceed \$50,000. For example, if start-up costs were \$54,000, the first-year write-off would be limited to \$1,000 ($\$5,000 - (\$54,000 - \$50,000)$).

The election to deduct start-up costs is made by claiming the deduction on the return for the year in which the active trade or business begins, and the return must be filed by the extended due date.

On IRS Schedule C, Profit or Loss from Business (Sole Proprietorship), the deduction is taken as part of the "Other Expenses" in Part V. If the entire amount of start-up costs isn't deductible in the business's first year, use Form 4562 to amortize the excess amount over 180 months, beginning with the month that you start operating the business. For example, the \$53,000 of start-up expenses in the prior example that couldn't be deducted as an expense in the first year of business would be deductible at \$294 per month ($\$53,000/180$), beginning with the first month the business became operational.

Qualifying Start-Up Costs – A qualifying start-up cost is one that would be deductible if it were paid or incurred to operate an existing active business in the same field as the new business, and the cost is paid or incurred before the day the active trade or business begins. Not includible are taxes, interest or research and experimental costs. Examples of qualified start-up costs include:

- Surveys/analyses of potential markets, labor supply, products, transportation facilities, etc.;
- Wages paid to employees and their instructors while they are being trained;
- Advertisements related to opening the business;
- Fees and salaries paid to consultants or others for professional services; and
- Travel and other related costs to secure prospective customers, distributors, and suppliers.

For the purchase of an active trade or business, only investigative costs incurred while conducting a general search for or preliminary investigation of the business (i.e., costs that help the taxpayer decide whether to purchase a new business and which one to purchase) are qualified start-up costs. Costs incurred while attempting to buy a specific business are capital expenses that aren't treated as start-up costs.

If you have any questions related to the start-up expenses election and whether it will benefit your business, please give this office a call.

Using Statements in QuickBooks - The Basics

Most small businesses use invoices for billing customers. But there are times when you may want to send statements instead of – or in addition to – invoices.

One of the more enjoyable parts of your job is probably sending invoices to your customers to bill for products and/or services is probably one of the more enjoyable parts of your job – second only to recording payments received. Thanks to the company file you've built in QuickBooks, creating invoices is generally a very simple process that requires no duplicate data entry.

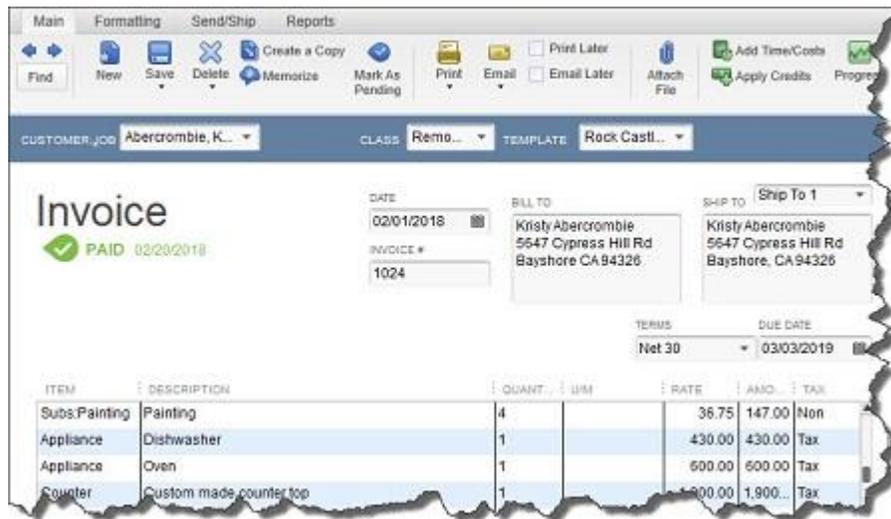


Figure 1: You probably use QuickBooks' invoice forms frequently, so you know how much easier it is to fill them out than to create paper bills.

QuickBooks also includes easy-to-use templates for another kind of customer form: *the statement*.

These forms are generally not used nearly as frequently as invoices. However, you may find them more appropriate if you:

- Want to create a form that lists all of a customer’s open charges
- Have a customer who accrues multiple charges before being billed
- Receive advance – or regular -- payments, or
- Need a historical accounting of a customer’s activity, including charges, payments, and balance.

Limitations of Statements

QuickBooks places some restrictions on statements. For example if you have a number of related charges for which you want to create a subtotal for, you’ll have to use an invoice. Statements also cannot include sales tax, percentage discounts, or payment items. Products or services requiring descriptions that run more than a paragraph can’t go on a statement. Customization options, too, are limited: you can’t add custom fields to the statement form, nor can you include a message to your customers, like, “We appreciate your business.”

The “Reminder Statement”

There may be occasions when you want to create a form that lists invoices received, payments made, and any credits given for one or more customers. This may be necessary when, for example, a customer disputes a charge. You may also want to send out these statements to remind customers of delinquent payments.

You do not have to enter any new data for these statements. Instead QuickBooks will pull the *existing* activity that you ask for in the **Create Statements** window, shown below. To get there, either click on the **Statements** icon on the home page, or open the **Customers** menu and select **Create Statements**.

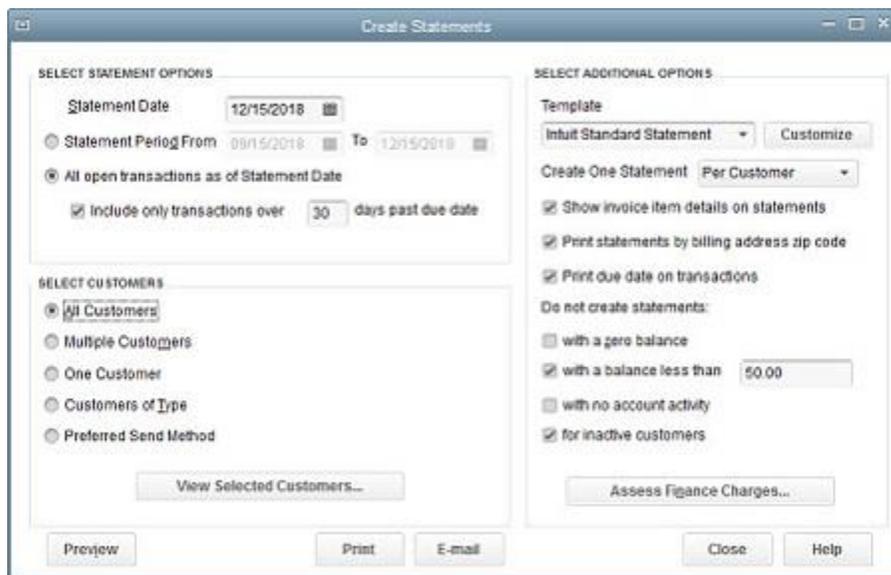


Figure 2: The **Create Statements** window in QuickBooks offers multiple options for defining the statements you want to send to customers.

As you can see, QuickBooks offers a lot of flexibility in the creation of statements. You can specify:

- **The active date range.** Under **SELECT STATEMENT OPTIONS**, you can either enter a date range or request a statement for every customer who has open transactions as of the **Statement Date** (be sure that this date is correct before proceeding). You can also ask to include only transactions that are past due by a specified number of days.
- **The customers to include.** Do you want to use the conditions you just outlined to apply to **All Customers**? If so, click on the button in front of that options. If you choose **Multiple Customers**, a small button labeled **Choose...** will appear. Click on it, and a window displaying your customer list opens. **One Customer** also opens your list of customers. If you've assigned types to your customers and want to include only those in one category (like Residential or Commercial), click **Customers of Type**. And **Preferred Send Method** lets you limit your statement output to customers who receive either emailed or printed forms.
- **The template to use.** Click the down arrow to see the statement templates available. If you have not customized QuickBooks' standard form and want to do so, let us help.
- **Whether QuickBooks prepares one statement per customer or per job.** This is a very important distinction, so choose carefully.
- **Miscellaneous attributes of your statement run.** Click on the box in front of any that should apply.

If you assess finance charges, you can do so here. This is an advanced activity in QuickBooks, and we'd be happy to provide guidance in this area.

When you're done, you can **Preview** your statements, **Print**, or **E-Mail** them by clicking those buttons.

Entering Individual Charges

If you need to enter individual charges, you'll have to work with QuickBooks' customer registers. You'll find these by either opening the **Customers** menu and selecting **Enter Statement Charges** or highlighting a customer in the **Customer Center**, then clicking the down arrow next to **New Transactions** and selecting **Statement Charges**.

DATE	NUMBER	ITEM	QTY	RATE	AMT CHRG	AMT PAID	BALANCE
	TYPE	DESCRIPTION		CLASS	BILLED DATE	DUE DATE	
12/10/2018	1091				4,522.00		7,633.28
	INV					Paid	
12/15/2018						7,633.28	0.00
	PMT						
12/15/2018	Number	Subs.C...	24	45.00	1,080.00		
	STMTCH	Install carpeting		New Constr...			

Figure 3: A **Statement Charge** in the customer register.

We highly recommend that you let us help you get started if individual charges are necessary. Like many of QuickBooks' functions, this isn't a difficult activity once you understand it. But it's much easier and economical for you to get upfront guidance than for us to come in and untangle your company file.