2014 YEAR-END TAX LETTER

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IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents you'll need to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from mutual funds** showing the transaction detail for the year.

□ **Purchase and sale information,** including dates, relating to anything sold during 2014 is needed.

□ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work)*.

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

□ **Records showing income and expense for any small business or rental property you own** will be needed.

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent, you will need to obtain 1098-T from the student to get the credit.

□ **Bring your records of estimated taxes paid.**

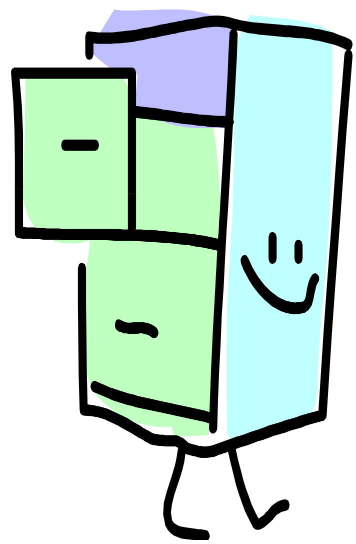
□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C for donations of automobiles or boats.**

□ **Details on all noncash donations greater than $500.** Include date, place, fair market value, and original cost.

□ **If you purchased a new fuel cell or electric plug-in vehicle in 2014,** bring the year, make and purchase date.



□ **Bring a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **Information on energy saving home improvements** might get you a tax credit.

□ **If you were an investor caught in a Ponzi-type scheme,** bring the details.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

□ **Proof of health insurance is needed.** Bring Form 1094 if you received one.

__Caution__: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2014 are calculated at **23½¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2014 is **56¢ per mile** (down ½ cent from 2013).

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you use your computer for investments, the business percentage of use may also be deductible if you itemize.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

WHAT'S NEW FOR 2014?

All taxpayers are required to have health insurance.

● Taxpayers not having adequate health coverage will pay a penalty unless they are considered exempt. The penalty will start small in 2014 and increase over time. For 2014, uninsured individuals will pay the greater of $95 or 1% of their income over the filing threshold for 2014.

● Taxpayers that are already a part of their employer's eligible plan are considered covered and do not have to be concerned about penalties.

● Exempt individuals are those incarcerated, not legally present in the United States, members of certain religious sects, American Indians, those on Medicare or Medicaid, Children's Health Insurance, veteran's health care, or any other government insurance.

● If you purchased health insurance from the Health Insurance Marketplace which was open for enrollment until March 31, 2014 and your income is under 400% of the Federal Poverty level, you will receive a Premium Assistant Credit. This will be paid to your insurance company to reduce premiums. When you file your 2014 tax return, the credit you received will be adjusted depending on your current income. Only taxpayers who purchased health insurance from the Marketplace will get this credit.

● If you missed out on the Marketplace for 2014, the Marketplace to purchase insurance for 2015 runs from November 15, 2014 to February 15, 2015.

● You can still get 2014 coverage through the Marketplace in special cases including marriage, birth, adoption, a move outside your service area, loss of health coverage, applying for Medicaid, and more.

The IRS is understaffed.

● The IRS budget was slashed by 1 billion since 2010, and 10,000 employees have been lost.

● Audits are lower than any year since 2005. Last year's audit rate was .96%. (one out of every 104 returns).

● The IRS is behind in answering correspondence. At the end of 2013, it had a backlog of about 1.1 million letters. If you are waiting for an answer to your letter, just wait.

● If you have amended a tax return, you will probably have to wait at least 12 weeks for a response. After 3 weeks, you can check your status online. You will need your SS number, date of birth, and zip code.

● There is no more free walk-in tax preparation assistance at IRS offices, and tax law questions from taxpayers are directed to the IRS website.

● Applications for Employer Identification numbers are no longer taken by telephone. You can apply online or by fax.

The Supreme Court has been busy making tax decisions.

● Bankruptcy creditors can get inherited IRAs.

● Severance pay to laid-off employees is subject to FICA. The IRS likes this decision because it would owe over 1.3 billion if the decision went the other way.

● A for-profit corporation, Hobby Lobby, argued in court that the contraceptive mandate in the ObamaCare bill violated its religious beliefs. They won. The Supreme Court has never before made a decision for a for-profit corporation on religious rights. You can expect to see a lot of comment on this issue.

Taxpayers have a new Bill of Rights.

Your rights include:

● The right to be informed
● The right to quality service
● The right to pay no more than the correct amount of tax
● The right to challenge the IRS position and be heard
● The right to appeal to the IRS in an independent forum
● The right to finality
● The right to privacy
● The right to confidentiality
● The right to retain representation
● The right to a fair and just tax system

Keep this list in mind in your IRS dealings. They should make you feel a little more powerful.

In spite of its budgetary restraints, the IRS has made some interesting decisions.

● The IRS has loosened rules for taxpayers who non-willfully miss the reporting of foreign accounts. Those who willfully fail – That's another story.

● The IRS announced that taxpayer identification numbers issued to aliens (ITINs) will no longer expire after 5 years if they are used on tax returns.

● Bitcoins are now treated as property for tax purposes. If they are accepted for payment they are included in income. If they are exchanged or sold, a gain or loss will be realized.

● Many small tax exempt groups can apply for 501(C) (3) status with a new 3 page application (1023-EZ) instead of the 26 page application (1023).

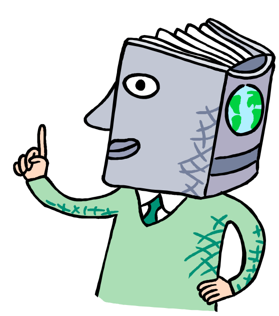
● The IRS has decided that IRA rollovers from one account to another or IRA withdrawals replaced within 60 days will be allowed only once a year, beginning in 2015.

Tax year 2014 is an interesting mixture of expiring and extended laws due to the *American Taxpayer Relief Act of 2012* and new provisions due to the *Patient Protection and Affordable Care Act (Obamacare)*.

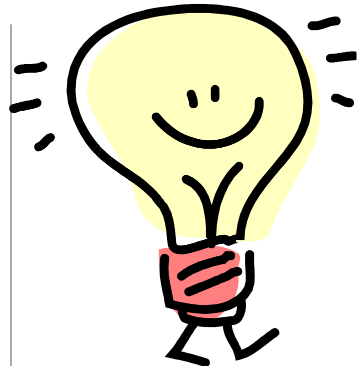
Also, taxes on the same income as last year are lower due to indexing. It doesn't get any better than that.

These are only some of the highlights of the rulings and court cases that were passed affecting your 2014 tax situation. A good tax preparer can help you use these new decisions to their fullest.

Turn the page for some great year-end tax-saving ideas.



YEAR-END TAX SAVING TIPS



GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2014 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $47,050 (single) or under $94,100 (married) you may be able to sell stocks or property at a gain in 2014 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2014 tax return, including extensions.

Pay all bills already received for operating expenses rather than deferring payment until 2015. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2015.

AND…

THE FUTURE?

This is an election year.
Any action from Congress will most likely be last minute. The most important tax item on the agenda is approval of the extenders (55 tax provisions that expired on December 31, 2013). Some or all of these extenders are expected to be revived. There will most likely be a last minute tax bill on this issue causing some delays in the beginning of next years filing season. Some of the more likely to survive provisions follow:

- Direct transfers of IRAs to charity
- Optional sales tax itemized deduction
- Energy credits
- Home mortgage debt forgiveness relief
- Mortgage insurance premiums treated as deductible interest
- Tuition and fees deduction for higher education
- Educator expense deduction
- 50% bonus depreciation, and generous Section 179 expensing on business equipment

We'll just have to wait until Congress makes a decision. Tax reform, for the moment, is on the back burner since it needs Congressional action.

The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.