THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

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2014 Individual Year-End Tax Planning

Tax planning in 2014 is as challenging as ever. This article provides an overview of some key tax provisions that you need to be aware of and offers a variety of strategies for minimizing your tax liability in 2014. In addition, there are a number of tax extenders that will expire if Congress does not act soon to extend them. Contact your local Padgett office to discuss what tax planning strategies can benefit you.

Year-End Tax Planning Tips:

1. Accelerate Deductions and Defer Income

The most traditional approach to tax planning is to "accelerate deductions and defer income," thereby reducing tax. Generally, this means accelerating deductions into the current year and deferring income into next year. By doing so, individuals may avoid various phase-outs based on adjusted gross income (AGI).

2. Bunch Itemized Deductions

Itemized deductions are subject to AGI limitations. Bunching itemized deductible expenses into one year may help you exceed these AGI floors. Consider scheduling routine medical procedures and refilling medical prescriptions before year end or paying next year's real estate taxes in the current year. To exceed the 2% AGI floor for miscellaneous expenses, bunch professional fees like legal advice and tax planning, as well as unreimbursed business expenses such as travel and vehicle costs. Remember, using your credit card to pay deductible expenses will increase your deductions even if you don't pay the credit card bill until after the end of the year.

3. Make Up a Tax Shortfall with Increased Withholding

Don't forget that taxes are due throughout the year as income is earned. Check your withholding and estimated tax payments now while you have time to correct a shortfall. If you're in danger of an underpayment penalty, consider increasing withholding on your salary or bonuses before year-end. Remember, a large late year estimated tax payment can still leave you exposed to penalties for previous quarters. While increasing withholding is considered to have been paid ratably throughout the year!

4. Leverage Retirement Account Tax Savings

It's not too late to fund your retirement account. Traditional retirement accounts like a 401(k) or IRAs offer some of the best tax savings. Contributions reduce taxable income at the time they are made, and the taxes are not paid until you take the money at retirement. If you are self-employed and haven't done so, set up a self-employed retirement plan by year-end and contribute before filing your return.

5. Don't Squander Your Gift Tax Exclusion

Feeling generous? In 2014, you can give up to $14,000 to as many people as you wish without paying gift or estate tax. If you combine gifts with a spouse, you can give up to $28,000 per beneficiary, per year.

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6. Understand the New Home Office Deduction Safe Harbor
If you use your home as your principal place of business or your office is a separate structure from your residence, you may qualify for a home office deduction. The amount of this deduction has long been a source of controversy, but the IRS has a new safe harbor that allows you to deduct up to $5 per square foot of home office space up to $1,500 per year.

7. Review Your Investment Portfolio for Losses to Offset Gains
Consider selling poor performing stock at a loss to offset capital gains. Another strategy is to realize losses while preserving your investment position by selling your original holding, then buying the same securities at least 31 days later.

8. Maximize "Above-the-Line" Deductions
Above-the-line deductions include traditional IRA and health savings account (HSA) contributions, moving expenses, self-employed health insurance costs, and alimony payments. Because these items are deducted before calculating your AGI and are not subject to phase-outs, they are valuable deductions. Consider bunching these expenses to maximize your tax benefit.

9. Perform an Overall Financial Checkup
The end of the year is always a good time to assess your financial situation, identify mistakes made in the past, and plan for the future. Consider your 2015 cash flow needs, your health care budget, your retirement portfolio, and your estate planning strategy. Be sure to review your wills and powers of attorney for any changes that may have occurred during the year. Remember, it's never too early or too late to start planning for the future!

Tax Extenders in Limbo

Year-end tax planning in 2014 is extremely challenging primarily due to of the uncertain fate of the "tax extender legislation." Historically, a number of "temporary" tax rules were routinely extended. However, as of today, Congress has yet to act! Some or all of these provisions may be retroactively reinstated (permanently or temporarily) during the lame duck Congressional session in December, thereby opening up some truly last minute year-end tax planning opportunities. For Individuals these include:

- The option to take an itemized deduction for state and local general sales taxes in lieu of an itemized deduction for state and local income taxes.
- The above-the-line-deduction for qualified and related higher education expenses.
- The ability of individuals at least 70½ years of age to exclude from gross income qualified charitable distributions from Individual Retirement Accounts.
- The exclusion from gross income for up-to $2 million of mortgage debt forgiveness on a principal residence.
- The treatment of qualified mortgage insurance premiums as mortgage interest.
- The ability to take the research and development (R&D) tax credit.
- The extension of 50% bonus depreciation for property acquired and placed into service in 2014.
- The extension of section 179 expensing and phase-out limitations from 2010 to 2013 ($500,000 and $2 million) to property placed in service during 2014. These amounts currently are $25,000 and $200,000, respectively.