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Tax & Financial Newsletter

This ***Tax and Financial Newsletter*** has three parts: One, a listing of key tax provisions that expired at the end of 2013 that may be extended for 2014; two, our annual checklist for year-end tax savings; and three, items of general tax interest, including audits, estates, and some new rules.

2013 Expired Tax Provisions that may be available for 2014

Congress is in the poor policy habit of waiting until the end of the year to consider tax laws that are retroactive for the year. It is no different this year. The following is a partial list of some key provisions that expired in 2013 that Congress is considering passing for 2014:

1. Fifty percent Bonus Deprecation expired in 2013. My opinion is Bonus Depreciation has only a small chance of passing for 2014.

2. The §179 asset expensing election is currently $25,000 (down from 2013's $500,000) with a phase out for purchases in excess of $200,000 (down from $2,000,000 in 2013). My opinion is the §179 expense will be replaced with a $250,000 limitation.

Congress has not considered extending bonus depreciation or increasing §179 for 2014 for passenger automobiles, small trucks and vans. The depreciation is highly limited for these vehicles for 2014.

3. Allow a 15-year recovery period, instead of the current 31.5 years, for certain leasehold improvements.

4. Return the built in gain recognition period for S corporations to five years instead of ten.

5. Revive the deduction for certain mortgage insurance premiums.

6. Continue allowing taxpayers to deduct the greater of sales taxes or state income taxes.

7. Extend the deductions for college tuition (up to $4,000) and teacher supplies ($250).

Business Tax Tips!

√ **Tax Basis:** Make sure you have tax basis in all your partnerships, LLCs, and S corporations to deduct any losses. Increasing your tax basis can be accomplished by several methods including loans and capital investments.

√ **Active Participation:** Increase your level of participation in partnerships, S corporations, or LLCs to qualify as an "active participant" for flow-through entities reporting losses.

√ **Sale of Loss Entities:** Dispose of your interests in any flow-through entities in which you have "suspended" loss carryforwards.

√ **Pension Plans:** Set up pension plans before year-end. In many cases if a plan is "set up" by December 31, you can contribute to the plan as late as October 15, 2015 for a 2014 tax deduction.

√ **Self-Employed Health Insurance Premiums:** Self-employed individuals can generally deduct 100% of health insurance paid for themselves, their spouses, and dependents. Tax savings may result by paying a January 2015 premium in December 2014.

√ **Payment by Check:** Cash basis businesses can date checks before the end of the year and mail them right before January 1, 2015 to obtain a 2014 deduction.

√ **Deferring Income to 2015:** Deferring income is an excellent method to slow down the cash required for taxes. Not only do the current year taxes decrease, but also, estimated tax payments for the following year can decrease. Some ways to defer income include: (1) electing the cash method of accounting versus the accrual method of accounting; many small businesses are reporting taxes on the accrual method when they could convert to the cash method; converting to the cash method can be made by the due date of the return including extension; (2) delay year-end billing to clients so that payments are not received until 2015; (3) take advantage of §1031 like-kind of exchanges for real estate; (4) electing the installment method of accounting; and, (5) delay selling gain assets until 2015.

√ **Accelerating Income into 2014:** If you are expecting a higher tax bracket next year or are in an unusually low bracket this year, consider accelerating income. Acceleration methods include: (1) selling gain assets before year-end; (2) taking distributions from pension plans; (3) converting a Roth IRA to a Traditional IRA; (4) electing out of the installment method of accounting; and, (5) electing slower depreciation methods.

Individual Tax Tips!

√ **State Tax Payments:** Pay your state estimated tax payment(s) that is due January 15, 2015 in late December. Consider paying all your state income tax liability before year-end. This strategy is especially useful if you have an unusually large increase in income for 2014 relative to 2015.

√ **Oklahoma Taxes:** Pay close attention to your Oklahoma state income taxes and make sure you are claiming all the state tax benefits. Oklahoma has extensive state tax breaks that are not applicable to a federal return.

√ **December W-2 Withholdings:** Avoid underpayment of estimated tax payment penalties by increasing your withholdings from your December paychecks.

√ **Pension Plan Contributions:** Increase your 401(k) contributions before year-end and take advantage of employer matching contributions.

√ **IRA's:** The annual deductible contribution limit for an IRA for 2014 is $5,500. For 2014, a $1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit $6,500 for these individuals.

√ **Lower College Tuition by 5%:** Take advantage of the Oklahoma §529 plans now by contributing to the plan in December 2014 for January 2015 college costs.

√ **Charitable Contributions:** (a) Consider gifting appreciated property to your favorite charitable organization for a deduction equal to its fair market value; (b) If you are donating extensive non-cash household items, take a cell phone picture to help document the fair value of the deduction; and (c) if you drive extensively for charitable purposes, keep track of mileage for the $.14 per mile per diem deduction.

√ **Single and Head of Household:** If you are single and assist your parents financially, make sure you meet the support level test to file head of household instead of single.

Investment Tax Tips!

√ **Short-Term Capital Gains:** Capital gains on property held one year or less can be taxed as high as approximately 50% after regular income taxes, the 3.8% net investment income tax, and state taxes.

√ **Long-term capital gains:** Long-term capital gains are taxed as high as about 30%, but for taxpayers not in the highest bracket, the tax rate can be as low as zero.

√ **Dividend Taxes:** Qualifying dividends are taxed at long-term capital gains rates.

√ **Gift Strategy:** Gift appreciated stock to adult children or parents in low brackets to utilize the 0% capital gain tax rate.

√ **Defer the Sale:** If you have a borderline holding period, consider holding the asset a little longer to take advantage of the long-term capital gain rates. Similarly, consider delaying a December 2014 sale to January 2015 to delay the tax for next year.

√ **Oklahoma Capital Gain Exclusion:** If you have appreciated Oklahoma real property or own stock, partnership interest or LLC membership interests in companies that are located primarily in Oklahoma, the capital gain, under many circumstances, can be totally excluded from Oklahoma taxation.

√ **Personal vs. Pension Plan Investments:** If you have tax deferred retirement accounts and personal investments, and the investments in the two accounts are capital gain type items (growth stocks), and ordinary income generators (bonds, money markets, etc.), hold the ordinary income generators in the pension plans and the growth stocks personally.

√ **Offset Gains:** Consider selling capital assets that will generate a loss to offset any capital gains recognized earlier in the year. Yet, be careful not to waste the benefits of long-term capital gains.

√ **Avoid Fluctuations:** Other than $3,000 per year, capital losses are only deductible against capital gains. Thus, refrain from having net capital gains in one year and net capital losses in the following year.

General Tax Items

1. Partnerships and Audits: Less than one-half of 1 percent of partnership returns are audited. Of those, 44% are "no change" audits. Therefore, only about 1 out of 425 partnership returns experience additional taxes due. Thus, consider partnerships for your new businesses. Ideal candidates are: (1) businesses expecting tax losses, especially through depreciation; (2) farm and cattle operations; (3) real estate ventures; and (4) oil and gas exploration. S-Corporations also have a lower probability of audit selection than sole-proprietorships.

2. **High Income Taxpayers and Audits:** In the next year, the IRS anticipates auditing 9% of all taxpayers making from $1,000,000 to $5,000,000.

3. **Estate and Gift Tax Exemption:** For 2014 and 2015, it is $5,340,000 and $5,430,000 respectively, an increase of $90,000. Thus, those who have previously used up their exclusion amount may make $90,000 of additional gifts excludable from gift tax.

4. **Annual Gift Tax Exclusion:** It is $14,000 for 2014 and 2015. A married couple can elect to double the exclusion.

5. **Repairs - Capitalization or Expensing:** Beginning for 2014 the IRS finalized regulations that explain and clarify rules when taxpayers must capitalize (deduct over many years) expenditures that restore tangible property to its former working condition or write it all off in one year as a repair or maintenance.

6. **IRS Business Per Diems for 2014:** (a) The IRS allows up to a $1,500 annual per diem deduction for a home office; (b) Vehicle mileage is $.56; (c) Daily Meals are $59. Both (b) and (c) are available to employees, the self-employed, and employers; and (d) Daily/Overnight travel, lodging and meals is from $170 to $251 depending on the area. It is an employer reimbursement method and not a deduction for employees or the self-employed.

The statements contained herein are basic overviews of the covered subjects. Most of these provisions have special rules, conditions, and exceptions. Further, the statements of the author contained herein are to be viewed as opinions only. For more information feel free to visit our website at [www.paulhburgess.com.](http://www.paulhburgess.com) Please call 918-599-7755 to see how you can make the most of these suggestions, or if you need help arranging your personal and business affairs to pay as little tax as possible.

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