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Individual year-end tax planning ideas

Synopsis - This article offers four different year-end tax planning methods: maximizing the benefit of the standard deduction, deferring income, securing a deduction for nearly worthless securities, and investing in tax-free securities.

Full Article - As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes – both on your 2014 return and in future years. Here are a few ideas.

Maximize the benefit of the standard deduction. For 2014, the standard deduction is \$12,400 for married taxpayers filing joint returns and \$6,200 for single taxpayers (\$12,600 and \$6,300, respectively, for 2015). If your total itemized deductions each year are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2015 to the end of 2014. If you're temporarily short on cash, charge the contribution to a credit card – it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2015. But, watch out for the alternative minimum tax (AMT), as these taxes are not deductible for AMT purposes.

Consider deferring income. It may be beneficial to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2015 or affected by unfavorable phase-out rules that reduce or eliminate various tax breaks (child tax credit, education tax credits, and so forth) in 2014. By deferring income every other year, you may be able to take more advantage of these breaks every other year. For example, if you're in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2015. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year.

Secure a deduction for nearly worthless securities. If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax bases and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchase with 30 days before or after the sale).

Invest in tax-free securities. The most obvious source of tax-free income is tax-exempt securities, either owned outright or through a mutual fund. Whether these provide a better return than the after-tax return on taxable investments depends on your tax bracket and the market interest rates for tax-exempt investments. With the additional layer of net investment income taxes on higher income taxpayers, this year might be a good time to compare the return on taxable and tax-exempt investments. In some cases, it may be as simple as transferring assets from a taxable to a tax-exempt fund.

Eight tips for deducting charitable contributions

Synopsis - This article lists eight things to know about deducting contributions to charity, including what qualifies for a deduction and the documentation that might be required. We've provided a link below to our *free guide* to valuing noncash donations.

Full Article - If you are looking for a tax deduction, giving to charity can be a "win-win" situation. It's good for them and good for you. Here are eight things you should know about deducting your contributions to charity:

1. You must donate to a qualified charity if you want to deduct the contribution. You can't deduct contributions to individuals, political organizations, or candidates.
2. To deduct your contributions, you must file Form 1040 and Schedule A - Itemized Deductions.
3. You must also file Form [8283 - Noncash Charitable Contributions](#), if your total deduction for noncash contributions is more than \$500 for the year.
4. If you receive a benefit in return for your contribution, your deduction is limited. You can only deduct the amount of your contribution that's more than the value of what you received in return. Examples of such benefits include merchandise, meals, tickets to an event, or other goods and services.
5. You must keep records to claim a deduction and prove the amount of the contributions you make during the year. The kind of record depends on the amount and type of your donation. For example, you must have a written record of any cash donations, regardless of the amount. It can be a canceled check, a letter from the organization, a bank statement or payroll stub. It should include the name of the charity, date, and amount donated. A cell phone bill meets this requirement for text donations if it shows this same information.
6. If you give property instead of cash, the deduction is usually that item's fair market value. Fair market value is generally the price you would get if you sold the property on the open market. Used clothing and household items generally must be in good condition to be deductible.
7. To document noncash donations, make a list of the items, the value of each item and always get a dated delivery receipt from the charity. But how does one determine the *value* of noncash donations? Download our free convenient **Guide to Valuing Noncash Donations** ([PDF](#) or [Excel](#)). Or Google *'thrift store donation value guide'* to find other suggestions.
8. To claim a deduction for donated cash or property of \$250 or more, you must have a written statement from the organization that shows the amount of the donation and a description of any property given. It must also say whether the organization provided any goods or services in exchange for the contribution. In addition, special rules apply to donations of vehicles or boats. And goods valued at more than \$5,000 may require an appraisal. For more information, see [IRS Publication 526](#).

Take advantage of flexible spending accounts (FSAs)

Synopsis - This article explains how to maximize at year-end the benefits of a flexible savings account and offers an example of how a couple with a one high salary and one lower salary can allocate their funds to an FSA in the most tax-efficient manner. However, the time to act is now, as many employer plans require that **FSA elections be made by November 30**.

Full Article - If your employer has a health care and/or dependent care FSA, before year end you must specify how much of your 2015 salary to convert into **tax-free** contributions to the plan. Federal and State income taxes, FICA tax and Medicare tax do not apply to money contributed to the FSA. Depending on your taxable income and marginal tax bracket, your total **tax savings can be 28% to 55%** on every dollar contributed to your FSA.

The FSA then allows you to take tax-free withdrawals from the account to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Watch out, though, FSAs are “use-it-or-lose-it” accounts — you don’t want to set aside more than what you’ll likely have in qualifying expenses for the year.

Married couples who both have access to FSAs will also need to decide whose FSA to use. If one spouse’s salary is likely to be higher than the FICA wage limit (\$118,500 for 2015), and the other spouse’s will be less, the one with the lesser salary should fund as much of the couple’s FSA needs as possible. The reason is that the 6.2% Social Security tax levy stops at the FICA wage limit. Thus, for example, if one spouse earns \$125,000 and the other \$40,000, and they want to collectively set aside \$5,000 in their FSAs, they can save \$310 (6.2% of \$5,000) by having the full amount taken from the lower-paid spouse’s salary vs. having 100% taken from the other one’s wages. Either way, the couple will also save approximately \$1,600 of income and Medicare taxes because of the FSAs.

If you currently have a health care FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you’ll lose the remaining balance. It’s not that hard to drum up some expenses, like new glasses or contacts, dental work you’ve been putting off, or prescriptions that can be filled early.

The flexible spending account is a **significant tax-free benefit** for taxpayers of any income level. Consider the tax savings as a huge discount on your out-of-pocket medical, dental and/or child care expenses. We can all enjoy a break like that!

Does your business need a buy/sell agreement?

Synopsis - This article highlights the importance of having a buy/sell agreement in place and notes three common methods for determining the purchase price under a buy/sell agreement.

Full Article - It is important that businesses with more than one owner have a written buy/sell agreement specifying what happens when an owner withdraws from the business. It is a contract between the owners (or the owners and the business entity itself) that establishes rules and restrictions applicable to changes in ownership.

The typical buy/sell agreement provides that an owner’s interest in the business will be sold (or at least offered for sale) at a specified price to the other owners and/or to the business entity itself upon the occurrence of specified events. This prevents unwanted persons from becoming members of the ownership group and ensures a ready market for closely held ownership interests. Buy/sell agreements also offer estate planning benefits by establishing a value for the business prior to an owner’s death.

Common methods for determining the purchase price under a buy/sell agreement include (1) establishing a fixed price in the contract, (2) requiring an independent appraisal, or (3) specifying a formula such as a percentage of book value. Generally, a buy/sell agreement is triggered by any circumstance identified by the owners in the contract that might cause a transfer of an ownership interest – such as retirement, disability, bankruptcy, scandal or death.

To fund the purchase price, buy/sell agreements often use cross-purchase life insurance policies on the owners. In the event of an untimely death, this provides liquidity to a deceased owner's family and may also provide the company with working capital to continue the business during a very disruptive period.

The best time to establish a buy/sell agreement is now, before the problem develops. Please give us a call if you would like to discuss the merits of a buy/sell agreement for your business.

The tax benefits of selling rather than trading business vehicles

Synopsis - This article explains how selling a business vehicle (e.g., automobiles, vans, and small SUVs) may be more beneficial than trading said vehicle in for a replacement vehicle.

Full Article - Although a vehicle's value typically drops fairly rapidly, the tax rules limit the amount of annual depreciation that can be claimed on most cars and light trucks. Thus, when it's time to replace a vehicle used in your business, it's not unusual for its tax basis to be higher than its value. Net tax basis is the difference between the total cost of the vehicle minus the accumulated depreciation claimed over the years.

If you trade the vehicles in on a new one, the undepreciated basis of the old vehicle simply tacks onto the basis of the new one (even though this extra basis generally doesn't generate any additional current depreciation because of the annual depreciation limits). However, if you sell the old vehicle rather than trade it in, any excess of basis over the vehicle's value can be claimed as a deductible loss to the extent of your business use of the vehicle. If the vehicle is used for both business and personal purposes, the tax basis, gain or loss must be allocated according to the business use percentage.

For example, if you sell a vehicle with an adjusted tax basis of \$20,000 for \$12,000, you'll get an immediate write-off of \$8,000 (\$20,000 - \$12,000). If you trade in the vehicle rather than selling it, the \$20,000 adjusted basis is added to the new vehicle's depreciable basis and, thanks to annual depreciation limits, it may be years before any tax deductions are realized.

Also, be aware that different depreciation rules and limits apply to **'heavy SUVs and pickups'**; those with a gross vehicle weight rating (GVWR) of more than 6,000 pounds and up to 14,000 pounds. The GVWR is usually posted on the information plate attached to the driver's door side panel. The decision to sell or trade a heavy vehicle is more complex and can have much greater tax consequences – negative or positive.

Give us a call to see if you will benefit more by selling or trading your business vehicle

Paying partnership expenses

Synopsis - This article describes when a partner may be able to deduct certain partnership expenses as trade or business expenses on his or her own personal return.

Full Article - Most partnerships reimburse partners for out-of-pocket business expenses. However, individual partners are often required to incur business expenses that will not be reimbursed by the partnership (such as travel and entertainment expenses). Partners are generally not entitled to deduct partnership expenses on their individual income tax returns. However, if the partnership's agreement or practice requires a partner to pay certain partnership expenses from his or her own funds, with no right to reimbursement from the partnership, the partner is entitled to deduct these business expenses on Schedule E in arriving at AGI on his or her personal return. Generally, these deductions also qualify to reduce net self-employment income on Schedule SE, thus reducing the self-employment tax.

Strategy - Partners should make explicit the "requirement" that partners incur certain partnership expenses without right of reimbursement, either as a provision of their partnership agreement or through a written policy of the partnership.

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