Mid-Year Tax Planning – 2014

Dear Client:

Tax Season 2014 has come and gone and now it's time to think about tax planning for tax year 2014. Items which could impact your 2014 taxes include certain life events and expired tax provisions.

Certain Life Events

Have you recently had a birth, adoption or death in your family? Have you gotten married, divorced, retired, or changed jobs this year? If any of these life events occur in 2014, we need to discuss the potential impact on your 2014 taxes. For example:

1) For Qualifying Children under the age of 17, a tax credit up to $1,000 per qualifying child may be allowed (which may be refundable.)
2) If you have retired (or are planning on retiring), we need to analyze how your change in income resulting from receiving IRA or pension distributions, and/or Social Security benefits will impact your tax liability.
3) A divorce or marriage could impact your tax situation in multiple ways (for example, alimony paid or received, deductions for mortgage interest and real estate taxes on your home, QDROs (qualified domestic relations orders) and potential changes in the standard deduction and personal exemptions allowed.)

Expiring Tax Provisions

Given the current political climate, it is not known if or when an agreement on extending the Expiring Tax Provisions ("extenders") may be reached. These extenders have made tax planning a challenge for both taxpayers and tax professionals. Therefore, if any of these provisions impact you, it is important that you contact me so that we may discuss the possible tax consequences:

1) *Sales Tax Deduction:* Prior to 01/01/2014, taxpayers may have been eligible to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A. This included the sales tax paid on the purchase of a vehicle. This deduction is no longer available to individuals.
2) *Mortgage Insurance Premiums*: Prior to 01/01/2014, taxpayers may have been eligible to deduct the amounts paid for qualified mortgage insurance premiums along with their mortgage interest (subject to adjusted gross income limitations). Effective 01/01/2014, no deduction is allowed for these premiums paid or accrued after this date.

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3) *Tax-free Distributions from Individual Retirement Plans for Charitable Purposes:* Prior to 01/01/2014, taxpayers over 70 ½ may have been eligible to exclude from their gross income distributions up to $100,000 from their IRA to a qualified charitable organization. This permitted taxpayers to satisfy their Required Minimum Distribution (RMD) and not include the amount in their income. As this reduced their Adjusted Gross Income (AGI), which favorably impacted the taxable amount of Social Security benefits received, this was a large tax advantage for taxpayers. This special distribution provision is not available for distributions after 2013.
4) *Qualified Principal Residence Debt Exclusion:* Prior to 01/01/2014, the discharge of principal residence debt (qualified mortgage on a taxpayer's main home incurred to buy, build or substantially improve his or her main home) was generally excluded from gross income. As many taxpayers are still experiencing financial difficulties resulting in foreclosures, short sales or debt forgiveness on their primary residence, the tax ramifications for 2014 will have major tax consequences.

Other Steps to Consider Before the End of the Year

You should thoroughly review your situation before year end to determine the best tax strategies for 2014 and the impact on 2015 as well. Accelerating income/deferring deductions into 2014 or deferring income/accelerating deductions to 2015 are just a couple of approaches that could benefit you.

If you have any foreign assets, be aware that there are reporting and filing requirements for those assets. Noncompliance carries stiff penalties.

Please call me at your convenience to set up an appointment to estimate your tax liability for the year and discuss any questions you may have.

Sincerely,

Mike Habib, EA

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