Year-End Tax Planning Summary
December 2014

Overview

Looking ahead into the final month of the 2014 tax year, we will be working with our clients and their advisors to identify and execute appropriate planning opportunities based upon each client's tax situation. We've provided a brief summary below, with additional commentary provided on the following pages. The Appendix includes tables with key rates and exemptions, largely unchanged from 2014 to 2015 except for nominal inflation adjustments.

When it comes to tax legislation, the 2014 year is shaping up to be one of the quietest years in recent memory but that doesn't necessarily mean that there haven't been a lot of changes. More than 50 popular temporary provisions expired at the end of 2013 and a handful more are scheduled to expire at the end of 2014. These provisions have typically been extended by lawmakers every year or two on a short term basis, and both Democrats and Republicans have proposed extending many of them this year (in several cases, retroactively to the beginning of 2014). This year was also quiet with regard to comprehensive tax reform: it has not moved beyond the discussion stage. In the days after the November 4th mid-term elections, GOP leaders said that tax reform would be a priority in the new Congress but no specifics have been outlined. President Obama has indicated that tax reform could be an area where he and the new Congress could cooperate. More discussions are expected at the beginning of 2015.

Additionally, the Affordable Care Act ("Obama-Care") continues to evolve, impacting both individuals and businesses. Individuals have been required to have health insurance since January 1, 2014, or face penalties. In 2015, the new employer mandate is set to go into effect.

While not a comprehensive list, we have been focused on the following year-end planning matters:

Income Tax & Alternative Minimum Tax

- Compare 2014 and 2015 marginal tax rates (considering Alternative Minimum Tax) and evaluate benefits of accelerating or deferring income and/or deductions
- Compare trust and individual marginal tax rates and impact of trust distributions
- Monitor expired tax breaks and last-minute planning opportunities (to the extent lawmakers extend expired provisions)
- Evaluate and facilitate state income tax credit planning opportunities
- Consider impact of the phase-out of itemized deductions and whether to bunch deductions

IRAs & Charitable Planning

- Facilitate annual IRA contributions and Required Minimum Distributions and related tax withholding
- Facilitate charitable contributions (e.g., utilization of appreciated securities)

Investment & Estate Planning

- Recognize unrealized capital losses (subject to wash-sale rules) to offset capital gains
- Consider impact of short-term capital gain mutual fund distributions (reported as ordinary income) and related planning opportunities
- Facilitate annual exclusion gifts and utilization of remaining lifetime exemptions

Potential Tax Provisions for Renewal

With increasing predictability, Congress has seen fit in recent years to allow tax breaks to expire and then extend them for one or two more years. This makes it challenging for both individuals and businesses to plan ahead without permanent and comprehensive tax reform. The table below highlights many of the tax breaks that expired at the end of 2013 and that may be extended by Congress.

Tax Extenders That Expired at End of 2013 That Have Yet to be Renewed (But Could Be) Before the End of 2014*	
Individuals	- Deduction for state and local sales taxes
	- Above-the-line deduction for certain expenses incurred by teachers
	- Above-the-line deduction for qualified tuition and related expenses
	- Deduction for mortgage insurance premiums (deductible as qualified interest)
	- Exclusion of discharge of principal residence indebtedness from gross income
	- Credit for health insurance costs of eligible individuals
Charitable	- Enhanced charitable deduction for contributions of food inventory
	- Tax-free distributrions from IRAs to charity at age $70^{1/2}$
	- Basis adjustment to the stock of S corporations making charitable contributions of appreciated property
	- Special rules for contributions of certain capital gain property for conservation purposes
Businesses	- Research and development tax credit
	- Work opportunity tax credit
	- Increased limitation of $500K in Section 179 expenses, $2 million phase-out threshold, and expanded definition of Section 179 property
	- Bonus depreciation
	- Special tax rules applicable to qualified small business stock
	- Reduction in S corporation recognition period for built-in-gains tax
	- Election to accelerate AMT credits in lieu of additional first-year depreciation
	- Fifteen year straight line cost recovery for qualified leasehold, restaurant and retail improvements
Energy	- Credit for construction of energy-efficient new homes
	- Energy-efficient commercial buildings deduction
	- Construction date for eligible facilities to claim the production tax credit or wind credit
	- Credit for energy-efficient appliances
	- Incentives for alternative fuel and alternative fuel mixtures
Community	- New markets tax credit
	- Empowerment zone tax incentives

*Source: Joint Committee on Taxation, List of Expiring Tax Provisions 2013-2024, January 10, 2014

Affordable Care Act (ACA)

While the Affordable Care Act (ACA) continues to be a discussion topic in Congress, a number of the provisions are now effective, or set to become effective in 2015.

The first phase of provisions to become effective are centered on the Individual Mandate. Each person is now required to carry "minimum essential health coverage" for themselves and all dependents. This can be done either through employers, or through a state or national insurance exchange. Special tax credits may be accessible to qualified individuals to help offset the cost of insurance. Any individuals not complying with the mandate will be subject to a "shared responsibility payment" or penalty.

Beginning in 2015, the second phase of the ACA implements the Employer Mandate. Employers with 50 or more full-time employees could face penalties unless they offer health insurance to their employees. Detailed rules apply to employers that hire both part-time and full-time employees as well as new recordkeeping requirements to help them track how and if they offer health insurance to them.

Alternative Minimum Tax (AMT)

The AMT is a separate tax calculation that requires taxpayers to add back certain deductions that would otherwise be deductible against their regular tax calculation. While there are several factors that could contribute to a taxpayer being subject to AMT, a combination of the following preferences typically trigger an AMT liability:

- Long-term capital gains
- Exercise of Incentive Stock Options
- State and local income tax deductions
- Personal property and/or real estate taxes
- Investment advisory fees
- Accelerated depreciation deductions

To the extent that a taxpayer is subject to AMT, a common practice is to consider deferring certain deductions (preference items) into the subsequent year and/or accelerating income into the current year that becomes subject to lower AMT tax rates versus higher regular ordinary income tax rates.

Net Investment Income Tax (NIIT)

The NIIT is a Medicate surtax of 3.8 percent imposed on the lesser of Net Investment Income (NII) or Modified Adjust Gross Income (MAGI) above a specified threshold. Distributions from IRAs, pensions, 401(k) plans, tax-sheltered annuities, and eligible Code Sec. 457 plans are excluded from NII and NIIT.

NII includes various types of investment income reduced by certain investment-related expenses, such as: investment brokerage fees, royalty-related expenses, and state and local taxes allocable to items included in NII. The following list of investment income is included in determining a taxpayer's NII:

- Gross income from interest, dividends, annuities, royalties, and rents, provided this income is not derived in the ordinary course of an active trade or business;
- Gross income from a trade or business that is a passive activity;
- Gross income from a trade or business of trading in financial instruments or commodities; and
- Gain from the disposition of property, other than property held in a continuing active trade or business

Taxpayers that are subject to NIIT should consider the following planning opportunities:

- Differentiate income derived from an active business from passive income that is subject to NIIT
- Consider recognizing unrealized losses to offset capital gains
- Evaluate closely-held business interests owned by non-grantor trusts and whether or not the trustee's active participation can be utilized when calculating the NII for the trust
- Talk with their tax advisor concerning reasonable methods to allocate certain expenses against NII

Year End Planning for Businesses

End of year tax planning for businesses has been complicated by uncertainty in the absence of comprehensive business tax reform. In early January 2013, the Senate passed the American Taxpayer Relief Act of 2012, which permanently extended the so-called Bush-era tax cuts. However, many popular business provisions were only extended through 2013.

Therefore, 2014 business tax planning includes concerns over the fate of the expired business provisions until comprehensive business tax reform is addressed. All progress on legislation remains uncertain as of the date of this memorandum.

Traditionally, much of year-end business planning involves decisions to hire additional employees, invest in research and development, or acquire equipment and machinery to take advantage of employer tax benefits, R&D tax credits, or enhanced depreciation tax deductions. However, the following more popular tax breaks remain in limbo:

Work Opportunity Credit – The work opportunity credit is expired at the end of 2013. This tax break was intended to provide a benefit to employers who hired the most vulnerable employees in the wake of the financial crisis. The tax credit applied with respect to wages paid by employers to persons who began work for the employer before January 1, 2014. Targeted groups included, among others:

- Qualified individuals in families receiving certain government benefits;
- Qualified individuals receiving supplemental social security or long-term family assistance;
- Veterans who are members of families receiving food stamps, who have service-connected disabilities, or who are unemployed;
- Qualified summer youth employees; and
- Ex-felons hired no more than one year after the later of their conviction or release from prison.

Research & Development Credit – Congress has yet to extend the research credit (also commonly referred to as the "R&D" credit) as it has done repeatedly since the credit was first established in 1981.

Enhanced Section 179 Depreciation – Prior to 2014, Section 179 permitted businesses to immediately deduct (rather than depreciate over time) up to $500,000 in qualified new or used assets placed in service (subject to phase-out rules). Since Congress failed to extend this provision for 2014, businesses can only write-off the first $25,000 for property placed in service during 2014.

Bonus Depreciation – Prior to 2014, this provision allowed businesses to claim additional first-year depreciation equal to 50% of qualified acquisition costs. Bonus depreciation was generally available only for new equipment (not used).

Appendix A: Key Income & Net Investment Tax Rates – 2014 and 2015 Tax Years

The following tables reflect applicable ordinary income, long and short-term capital gains, qualifying dividends and net investment income tax brackets for 2014 and 2015 tax years.

2014 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to $9,075	Up to $18,150	Up to $9,075	Up to $12,950	NA	10%
$9,075 - $36,900	$18,150 - $73,800	$9,075 - $36,900	$12,950 - $49,400	Up to $2,500	15%
$36,900 - $89,350	$73,800 - $148,850	$36,900 - $74,425	$49,400 - $127,550	$2,500 - $5,800	25%
$89,350 - $186,350	$148,850 - $226,850	$74,425 - $113,425	$127,550 - $206,600	$5,800 - $8,900	28%
$186,350 - $405,100	$226,850 - $405,100	$113,425 -$202,550	$206,600 - $405,100	$8,900 - $12,150	33%
$405,100 - $406,750	$405,100 - $457,600	$202,550 - $228,800	$405,100 - $432,200	NA	35%
$406,750 and above	$457,600 and above	$228,800 and above	$432,200 and above	$12,150 and above	39.6%

2015 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to $9,225	Up to $18,450	Up to $9,225	Up to $13,150	NA	10%
$9,225 - $37,450	$18,450 - $74,900	$9,225 - $37,450	$13,150 - $50,200	Up to $2,500	15%
$37,450 - $90,750	$74,900 - $151,200	$37,450 - $75,600	$50,200 - $129,600	$2,500 - $5,900	25%
$90,750 - $189,300	$151,200 - $230,450	$75,600 - $115,225	$129,600 - $209,850	$5,900 - $9,050	28%
$189,300 - $411,500	$230,450 - $411,500	$115,225 - $205,750	$209,850 - $411,500	$9,050 - $12,300	33%
$411,500 - $413,200	$411,500 - $464,850	$205,750 - $232,425	$411,500 - $439,000	NA	35%
$413,200 and above	$464,850 and above	$232,425 and above	$439,000 and above	$12,300 and above	39.6%

Long-term capital gains and qualifying dividends generally taxed at maximum rate of:	2014	2015
Taxpayers in top (39.6%) tax bracket	20%	20%
Taxpayers in 25%, 28%, 33%, and 35% tax rate brackets	15%	15%
Taxpayers in tax rate bracket 15% or less	0%	0%

2014 Top Federal Income Tax Rates	
Ordinary earned income, not including short-term capital gains or passive income [1]	39.6%
Net investment income (interest, short-term capital gains, non-qualified dividends and other passive income) [2]	43.4%
Long-term capital gains [3]	23.8%
Qualified dividends [4]	23.8%

Notes:
1 Medicare surcharge of 0.9% applied to wages and self-employment income that exceeds $200K for singles and $250K for couples
2 Includes interest, dividends, royalties, net rental income and other passive income
3 Includes 3.8% surtax on net investment income over $200K for singles and over $250K for couples
4 Includes 3.8% surtax on net investment income over $200K for singles and over $250K for couples

Appendix B: Key Exemptions and Estate, Gift & GST Tax Rates – 2014 and 2015 Tax Years

The following tables reflect personal and dependency exemptions, AMT exemptions and phase-outs and Estate, Gift and GST Exemptions and Tax Rates for 2014 and 2015 tax years.

Exemptions/Itemized Deductions	2014	2015
Personal & dependency exemptions	$3,950	$4,000
Phaseout threshold for exemptions and itemized deductions	$305,050 (MFJ) $279,650 (HOH) $254,200 (Single) $152,525 (MFS)	$309,900 (MFJ) $284,050 (HOH) $258,250 (Single) $154,950 (MFS)

Note: Exemptions and certain itemized deductions are phased-out equal to the lesser of: 3% of AGI in excess of the threshold levels or 80% of certain itemized deductions.

Alternative Minimum Tax (AMT)	2014	2015
Maximum AMT exemption amount	$82,100 (MFJ) $52,800 (Single/HOH) $41,050 (MFS)	$83,400 (MFJ) $53,600 (Single/HOH) $41,700 (MFS)
Exemption phaseout threshold	$156,500 (MFJ) $117,300 (Single/HOH) $78,250 (MFS)	$158,900 (MFJ) $119,200 (Single/HOH) $79,450 (MFS)
26% rate applies to AMT income (AMTI) at or below this amount (28% rate applies to AMTI above this amount)	$182,500 ($91,250 if MFS)	$185,400 ($92,700 if MFS)

Note: Exemptions for the AMT are phased out as taxpayers reach high levels of alternative minimum taxable income (AMTI). Generally, the exemption amounts begin to be phased-out once an individual's AMTI exceeds the threshold levels above.

Calendar Year	Estate Tax Exemption (Less Lifetime Gift Tax Exemption Utilized)	Gift Tax Exemption	Generation Skipping Transfer Exemption	Tax Rate
2014	$5,340,000	$5,340,000	$5,340,000	40%
2015	$5,430,000	$5,430,000	$5,430,000	40%

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