December 22, 2014 – Year-End Planning

With January 1, 2015 fast approaching, the window for possible tax saving moves for 2014 is closing. Of course, every taxpayer's situation is different but there are some general approaches that can be considered. Some last-minute year-end tax strategies may include spreading the recognition of income between 2014 and 2015, harvesting losses, making tax-free gifts, and making charitable donations. Individuals also need to review their compliance with the *Patient Protection and Affordable Care Act.* For an individualized approach to last-minute year-end tax planning, please contact our office.

Income

Before year-end, individuals may find it valuable to spread the recognition of income between 2014 and 2015. This may come into play for individuals who are able to postpone year-end bonuses, maximize deductible retirement contributions, and delay year-end billings. Individuals may want to consider the pre-payment of real estate taxes or mortgage interest; the policy of the taxing authority or mortgagee with respect to prepayment is critical in using this strategy. Life changes can also impact traditional year-end tax planning. Individuals who married or divorced, changed jobs, retired, or experienced other life events in 2014 need to review how these events may have revised their tax planning. A change in employment, for example, may bring about severance pay, sign-on bonuses, stock options, moving expenses, and COBRA health benefits, which all must be taken into account in year-end tax planning.

The higher an individual's income, the greater the spread is between his or her ordinary tax bracket and the capital gains tax rate. Timing the recognition of capital gains and losses -- both short-term and long-term -- at year-end may help to minimize an individual's net capital gains tax and maximize deductible capital losses. Taxpayers should look at stocks, mutual funds and the like in unsheltered accounts. From a tax standpoint, losses can offset gains to further reduce tax costs. Keep in mind that if losses exceed gains, taxpayers generally can apply them to shelter up to $3,000 in ordinary income in a year and carry forward excess amounts. On the gain side, those in higher income tax brackets should also be mindful of exposure to the 3.8 percent net investment income tax now imposed on capital gains, dividends and other passive income.

Gifts/donations

Before year-end, individuals can make tax-free gifts of $14,000 per recipient (unlimited in number). Married couples may combine their gift-tax exclusion amounts and make tax-free gifts per recipient of up to $28,000 for 2014. Last-minute donations to qualified charitable organizations may also be a strategy to reduce an individual's 2014 tax liability. The IRS has strict substantiation rules for various types of donations, particularly for donations of motor vehicles.

Affordable Care Act

Effective January 1, 2014, the Affordable Care Act required individuals, unless exempt, to carry minimum essential health insurance coverage. For wage earners, employer-provided coverage generally is

minimum essential coverage but in some cases it may fall short of that threshold. Similarly, nearly all types of government coverage meet the minimum essential coverage requirement but there are exceptions. Before year-end 2014, individuals should verify that their health insurance coverage is minimum essential coverage or if they qualify for an exemption. Our office can help you make this important determination.

If you have any questions about last-minute year-end planning, please contact our office.