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Subject: 2014 Income Tax Update

Dear Clients and Friends,

BREAKING NEWS

Congress has finally passed legislation extending through 2014 significant individual and business tax provisions which were previously scheduled to expire for 2014, and adding a provision which provides for establishment of tax-favored savings accounts (ABLE accounts) for future payment of expenses for a qualified disabled beneficiary. 2014 filing will also include first-time representations by all taxpayers with sufficient income to require filing or who have received advance health insurance premium assistance payments through the health-care exchange for determination of entitlement to premium assistance and to include penalty for failure to have minimum essential health insurance coverage for non-exempt taxpayers and dependents during any months in 2014 after March 31.

Sample of Extended Tax Incentives

Individuals – Itemized deduction of state and local general sales taxes in lieu of income taxes; above-the-line option to deduct qualified tuition and related education expenses; exclusion of qualified principal mortgage indebtedness forgiveness in 2014 up to \$1,000,000 for single taxpayers and \$2,000,000 for married joint-filers; tax-free distributions from individual retirement plans (IRAs) to charities if required minimum distributions (RMD) are applicable; treatment of qualified acquisition indebtedness mortgage insurance premiums as qualified mortgage interest within AGI limits; above-the-line deduction for up to \$250 of qualifying expenses paid by elementary and secondary school teachers; and the special rule for contributions of capital gain real property made for conservation purposes are included with other provisions extended to benefit individuals in 2014, along with business provisions below.

Businesses – Increased Sec. 179 expensing of qualified assets acquired; first-year 50% bonus depreciation; research and development credits; 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements; employer wage credit for employees who are active-duty members of uniformed services; work opportunity credit; and enhanced charitable deduction for contributions of food inventory, along with numerous other business provisions which are less commonly applicable.

Health Care Coverage Responsibility

Beginning this year, all non-exempt individuals must have health insurance coverage or make a penalty payment with their tax return. Taxpayers having qualifying health care coverage (called minimal essential coverage) in every month from April through the end of 2014 for themselves and anyone they could or did claim as a dependent need only check the return box indicating that. Otherwise, there is a new Form 8965 (Health Coverage Exemptions) to claim a coverage exemption. If not entitled, there is an instruction worksheet for Form 8965 (Shared Responsibility Payment Worksheet) to compute the penalty to be reported on Form 1040 line 61. Non-exempt members of the household not having minimum essential coverage face potential annual payment for 2014 to the greater of:

- 1) 1% of household income that is above the tax return filing threshold for the taxpayer's status or;
- 2) A flat dollar amount of \$95 per adult and \$47.50 per child limited to a family maximum of \$285.

However, the payment is capped at cost of the national average premium for a bronze level health plan available through the Marketplace (www.Healthcare.gov): \$204 per individual per month or \$2,448 per individual per year. Taxpayer will owe 1/12 of the annual payment for each month they, or spouse filing jointly, or dependents don't have coverage or an exemption. Coverage for even a day within a month qualifies as coverage that month. **NOTE: Payments for liable non-covered individuals are scheduled to increase substantially in future years, including 2015, if not changed.**

Exemptions include: individuals who have no affordable options because the minimum amount to be paid for annual premiums exceeds 8% of household income; has a gap in coverage of less than three consecutive months; or qualifies for exemption for one of several other reasons including having a hardship which prevents obtaining coverage or belonging to a group exempt from coverage.

Advanced premium tax credits are reported by recipients to reconcile eligibility on Form 8962, with excess premium credits carried to line 46 on Form 1040 for repayment.

Achieving a Better Life Experience (ABLE) Act of 2014

A Sec. 529 "ABLE" account may be established for tax years after 2014 with a qualified ABLE program established by a State or agency or instrumentality thereof to accept limited contributions from individuals and family members for a designated disabled beneficiary who is properly certified by the State as becoming disabled before age 26 for the purpose of their support with payment of qualified expenses. It is meant to supplement, not supplant, insurance, Medicaid, SSI, the beneficiary's employment or other sources and is exempt from taxation (except unrelated business income tax). Cash contributions must be limited to the annual gift tax exclusion for the year. Rollover provisions, taxes and penalties on unqualified distributions will be similar to Sec. 529 education accounts, and accounts include reporting provisions.

Continuing Tax Considerations

See our 2013 tax planning letter advice (available at www.fielderco.com or contact us for a copy) regarding reporting of foreign income and account balances requirements, additional taxes imposed beginning last year on higher income taxpayers including increased capital gain rates (with recommended management of capital gains and loss realization when possible), additional .9% Medicare tax due to high wages, and 3.8% Medicare tax on net investment income of taxpayers with high modified adjusted gross income.

See the following tax rates, deductions and limits below for 2014 and 2015, listing some provisions of common interest. Please consult for applicability in your circumstances.

Tax Rates, Deductions and Limits

<u>Mileage Rates:</u>	<u>2014</u>	<u>2015</u>
Business Auto Use	56 cents/mi.	57.5 cents/mi.
Amount of bus. mileage rate treated as depreciation	22 cents/mi.	24 cents/mi.
Medical and Moving Use	23.5 cents/mi.	23 cents/mi.
Charitable use	14 cents/mi.	14 cents/mi.
 Estate and Gift Tax Unified Exclusion	 \$5,340,000	 \$5,430,000
Annual Taxable Non-Spouse Gift Exclusion/per donee	\$ 14,000	\$ 14,000
With maximum annual exclusion to non-U.S. citizen spouse:	\$ 145,000	\$ 147,000
And unlimited exclusion to U.S. citizen spouse		
 <u>Social Security:</u>		
FICA Taxable Wage Base (no limit on Medicare tax)	\$ 117,000	\$ 118,500
Maximum earnings to still receive Full Retirement Benefit:		
Under Full Retirement Age (FRA)	\$ 15,480	\$ 15,720
Year FRA attained to month FRA reached	\$ 41,400	\$ 41,880
Earnings limit after FRA	No Limit	No Limit
Earnings needed to earn one quarter of coverage	\$ 1,200	\$ 1,220
Cost of Living Adjustment	1.5%	1.7%
 Kiddie Tax on Unearned Income	 \$ 2,000	 \$ 2,100
Child Tax Credit	\$ 1,000	\$ 1,000
Modified AGI phase-out begins:		
Married filing joint	\$ 110,000	\$ 110,000
Married filing separate	\$ 55,000	\$ 55,000
All others	\$ 75,000	\$ 75,000
(credit is refundable for taxpayers with more than \$3,000 of earned income)		
 <u>IRA:</u>		
Base Contribution	\$ 5,500	\$ 5,500
Age 50 Catch Up	\$ 1,000	\$ 1,000
 <u>Deductible IRA Phase-out:</u>		
Joint Filer-plan participant	\$96,000-\$116,000	\$98,000-\$118,000
Joint Filer-not a plan participant		
married to a plan participant	\$181,000-\$191,000	\$183,000-\$193,000
Single/HOH plan participant	\$60,000-\$70,000	\$61,000-\$71,000
MFS-lived with spouse during the year	\$0-\$10,000	\$0-\$10,000
 <u>Roth IRA Phase-out:</u>		
Married Joint	\$181,000-\$191,000	\$183,000-\$193,000
Single/HOH	\$114,000-\$129,000	\$116,000-\$131,000
Married Separate	\$0-\$10,000	\$0-\$10,000

Tax Rates, Deductions and Limits (continued)

<u>Simple IRA:</u>	<u>2014</u>	<u>2015</u>
Base Contribution	\$ 12,000	\$ 12,500
Age 50 Catch-Up	\$ 2,500	\$ 3,000
 <u>401(k), 403(b), and 457 Plans:</u>		
Base Contribution	\$ 17,500	\$ 18,000
Age 50 Catch-Up	\$ 5,500	\$ 6,000
Profit-Sharing Plan/SEP Contribution Limit	\$ 52,000	\$ 53,000
Annual Compensation Limit for Profit-Sharing and SEP Contributions	\$ 260,000	\$ 265,000
Defined Benefit Plan Annual Contribution Limit	\$ 210,000	\$ 210,000
Personal Exemptions (none for dependent child claimed by parent)	\$ 3,950	\$ 4,000
<u>Personal Exemption Phase-Out (PEP):</u> 2% for each \$2,500 (or fraction thereof) by which AGI exceeds following threshold:		
Joint Filers and Qualified Widows	\$ 305,050	\$ 309,900
Single Filers	\$ 254,200	\$ 258,250
Heads of Household	\$ 279,650	\$ 284,050
Married Filing Separately: (each \$1,250 bracket, vs. \$2,500)	\$ 152,525	\$ 154,950
 <u>Standard Deduction:</u>		
Single	\$ 6,200	\$ 6,300
Married Filing Joint and Qualified Widower	\$ 12,400	\$ 12,600
Married Filing Separate	\$ 6,200	\$ 6,300
Head of Household	\$ 9,100	\$ 9,250
 <u>Additional Deduction for Elderly and Blind:</u>		
Single and Heads of Household	\$ 1,550	\$ 1,550
Married and Surviving Spouses	\$ 1,200	\$ 1,250
 <u>Dependent of Another:</u>		
Greater of (\$XXX) or (\$XXX plus earned income) not to exceed regular standard deduction (plus \$1,550 for blind dependent)	\$1,000/\$350	\$1,050/\$350
 <u>Reduction in Itemized Deductions (Pease Limitation)</u>		
By 3% of excess of AGI over amounts below, up to 80% of itemized deductions otherwise available (same thresholds as PEP):		
Joint Filers and Surviving Spouse	\$ 305,050	\$ 309,900
Single Filers	\$ 254,200	\$ 258,250
Heads of Household	\$ 279,650	\$ 284,050
Married Filing Separately	\$ 152,525	\$ 154,950

Tax Rates, Deductions and Limits (continued)

<u>Earned Income Credit</u>	<u>2014</u>		<u>2015</u>	
	<u>Earned Inc/ AGI Less Than</u>	<u>Max Credit</u>	<u>Earned Inc/ AGI Less Than</u>	<u>Max Credit</u>
No Qualifying Children	\$14,590 (\$20,020 MFJ)	\$ 496	\$14,820 (\$20,330 MFJ)	\$ 503
1 Qualifying Child	\$38,511 (\$43,941 MFJ)	\$3,305	\$39,131 (\$44,651 MFJ)	\$3,359
2 Qualifying Children	\$43,756 (\$49,186 MFJ)	\$5,460	\$44,454 (\$49,974 MFJ)	\$5,548
3 or More Children	\$46,997 (\$52,427 MFJ)	\$6,143	\$47,747 (\$53,267 MFJ)	\$6,242

(MFS does not qualify; \$3,350 investment income limit - \$3,400 in 2015)

Education Credits:

American Opportunity Credit (AOC) (before 2018):

First four years of qualifying undergraduate higher education tuition and fees required for attendance at accredited institutions for each qualified taxpayer, spouse, and dependent (see phase-out modified AGI limits) for both 2014 and 2015:

Up to 100% of first	\$2,000
25% of next	\$2,000
Phase-out range:	\$160-\$180,000 MFJ; \$80,000-\$90,000 Others; (None for MFS) 2014 and 2015

Lifetime Learning Credit:

Only one credit per taxpayer (not combined with AOC for student)

20% of up to	\$10,000	\$10,000
Phase-out range:	\$108,000-\$128,000 MFJ	\$110,000-\$130,000 MFJ
(None for MFS)	\$54,000-\$64,000 for All Others	\$55,000-\$65,000 for Other Qualifying Taxpayers

Optional "above the line" deductions of up to \$4,000

For taxpayers whose modified AGI doesn't exceed \$65,000 (\$130,000 for MFJ) or \$2,000 for taxpayers with modified AGI exceeding \$65,000 (\$130,000 for MFJ) but doesn't exceed \$80,000 (\$160,000 for MFJ) in 2014 and 2015.

Foreign Earned Income Exclusion

(Foreign housing costs between 16% and 30% of excluded amount can also be excluded):	\$ 99,200	\$100,800
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Maximum Exclusion for Foreign Housing Costs

(increased in high-cost localities)	\$ 13,888	\$ 14,112
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Tax Rates, Deductions and Limits (continued)

<u>Alternative Minimum Tax</u>	<u>Exemption/Phase-Out</u>	<u>Exemption/Phase-Out</u>
Married Filing Joint or Qualified Widow	\$82,100/\$156,500-\$484,900	\$83,400/\$158,900-\$492,500
Single or HOH	\$52,800/\$117,300-\$328,500	\$53,600/\$119,200-\$333,600
Married Filing Separate	\$41,050/\$78,250-\$242,450	\$41,700/\$79,450-\$246,250

28% Rate Applied to Excess Taxable Income (AMTI Minus Exemption) over:
 \$91,250 in 2014 and \$92,700 in 2015 for Marrieds Filing Separately and
 \$182,500 in 2014 and \$185,400 in 2015 for all other filers.

Section 179 Write-Off of Qualified Business Assets

in Service in Acquisition Year Against Income

	<u>2014</u>	<u>2015</u>
Overall limit	\$ 500,000	\$ 25,000*
SUV limit/vehicle	\$ 25,000	\$ 25,000*
Qualifying property phase-out	\$2,000,000	\$ 200,000*

(*Note: Congress may address decrease in 2015
through tax reform legislation)

Health Savings Account (HSA) Limitations:

Self-Plan	\$ 3,300	\$ 3,350
Family-Plan	\$ 6,550	\$ 6,650
Age 55 Catch Up	\$ 1,000	\$ 1,000
Minimum Deductible - Self-Plan	\$ 1,250	\$ 1,300
Minimum Deductible - Family-Plan	\$ 2,500	\$ 2,600
Maximum Deductible - Self-Plan	\$ 6,350	\$ 6,450
Maximum Deductible - Family-Plan	\$ 12,700	\$ 12,900

Flexible Spending Arrangement (FSA) – Limit of

voluntary employee salary reduction for contributions to cafeteria plan	\$ 2,500	\$ 2,550
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Long-Term Care Deduction Limitations:

Age 40 or younger	\$ 370	\$ 380
Age > 40 but < 50	\$ 700	\$ 710
Age > 50 but < 60	\$ 1,400	\$ 1,430
Age > 60 but < 70	\$ 3,720	\$ 3,800
Age > 70	\$ 4,660	\$ 4,750

Student Loan Interest Deduction

Maximum (2014 and 2015)	\$2,500
With modified AGI phase-outs of	\$130,000-\$160,000 for MFJ; \$65,000-\$80,000 for All Others

Tax Rates, Deductions and Limits (continued)

EE and I Series Savings Bond Interest

Income is Excluded to extent proceeds are used to pay higher education costs not in excess of qualified expenses with modified AGI phase-outs:

\$113,950-\$143,950 MFJ	\$115,750-\$145,750 MFJ
\$76,000-\$91,000 S & HOH	\$77,200-\$92,200 S & HOH
None for MFS	None for MFS

Retirement Saver's Non-Refundable Credit

may be available to lower income contributors for IRA and Qualified Elective Retirement Plan contributions for a percentage of up to \$2,000 based on modified AGI ranges as follows:

<u>Applicable Percentage</u>	<u>2014</u>	<u>2015</u>
50%	\$0-\$36,000 MFJ \$0-\$27,000 HOH \$0-\$18,000 S; MFS; QW	\$0-\$36,500 MFJ \$0-\$27,375 HOH \$0-\$18,250 S; MFS; QW
20%	\$36,001-\$39,000 MFJ \$27,001-\$29,250 HOH \$18,001-\$19,500 S; MFS; QW	\$36,501-\$39,500 MFJ \$27,376-\$29,625 HOH \$18,251-\$19,750 S; MFS; QW
10%	\$39,001-\$60,000 MFJ \$29,251-\$45,000 HOH \$19,501-\$30,000 S; MFS; QW	\$39,501-\$61,000 MFJ \$29,626-\$45,750 HOH \$19,751-\$30,500 S; MFS; QW
0%	Over \$60,000 MFJ Over \$45,000 HOH Over \$30,000 S; MFS; QW	Over \$61,000 MFJ Over \$45,750 HOH Over \$30,500 S; MFS; QW

Taxable Income Rate Brackets

	<u>Joint or Surviving Spouse</u>	<u>Single</u>	<u>H of H</u>	<u>Married filing separately</u>
10% RATE ENDS:				
2014	\$ 18,150	\$ 9,075	\$ 12,950	\$ 9,075
2015	\$ 18,450	\$ 9,225	\$ 13,150	\$ 9,225
15% RATE ENDS:				
2014	\$ 73,800	\$ 36,900	\$ 49,400	\$ 36,900
2015	\$ 74,900	\$ 37,450	\$ 50,200	\$ 37,450
25% RATE ENDS:				
2014	\$148,850	\$ 89,350	\$127,550	\$ 74,425
2015	\$151,200	\$ 90,750	\$129,600	\$ 75,600

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Taxable Income Rate Brackets (continued)

	<u>Joint or Surviving Spouse</u>	<u>Single</u>	<u>H of H</u>	<u>Married filing separately</u>
28% RATE ENDS:				
2014	\$226,850	\$186,350	\$206,600	\$113,425
2015	\$230,450	\$189,300	\$209,850	\$115,225
33 % RATE ENDS (35% IN EXCESS):				
2014	\$405,100	\$405,100	\$405,100	\$202,550
2015	\$411,500	\$411,500	\$411,500	\$205,750
35 % RATE ENDS (39.5% IN EXCESS):				
2014	\$457,600	\$406,750	\$432,200	\$228,800
2015	\$464,850	\$413,200	\$439,000	\$232,425

See the notes regarding Medicare taxes, capital gain rates, alternative minimum taxes, phase-outs of personal exemptions and itemized deductions, employment taxes, and other provisions including adjustments and credits which affect your actual percentage rate.

We have tailored this planning information for general relevance to our diverse clientele. This letter and a helpful tax data organizer are available on our website, www.fielderco.com, which has existed over 25 years to assist clients, our friends. Please call on us for specific planning questions in your case. We wish you great success and happiness.

Sincerely,



Jim Fielder