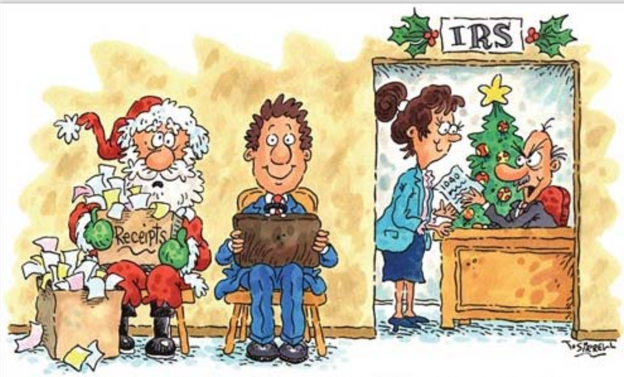
Planning for your 2014 tax return

All of us here at Tamiyasu, Smith, Horn & Braun are getting ready for 2015. Here are some items to consider when preparing filing your 2014 tax return.

Affordable Care Act ('Obamacare')

Beginning in the 2014 tax year, most individual taxpayers will be required to obtain health insurance, either through their employer or independently on a health insurance exchange marketplace, or risk facing a tax penalty. In 2014 the penalty is either $95 per adult ($47.50 per child) or 1% of income, whichever is higher. In some situations, the amounts of these penalties will increase in 2015. If you or your family members do not have health insurance, it may make sense for us to evaluate your options by comparing the amount of the potential penalties with the cost of obtaining coverage.



"This audit should be a snap! The accountant for some guy named K.Kringle claims he racked up 3,562,012 miles of business travel in one night!"

IRA Considerations

In 2014, the waiting-period rule on IRA rollovers changed, and not to your benefit. While the rule used to be that the one-year waiting period between rollovers applied on an IRA-by-IRA basis, the courts and IRS determined that it applies on an aggregate basis instead. This means that you cannot make a tax-free IRA-to-IRA rollover if you've made such a rollover involving any of your IRAs in the preceding one-year period. This new rule applies beginning in 2015. However, the rule does not affect your ability to transfer funds from one IRA trustee directly to another, because such a "trustee-to-trustee transfer" is not a rollover and, therefore, is not subject to the one-waiting period.

Self-directed IRAs have become increasingly popular in recent years because they allow an IRA owner to have more control over the type of investments that will be held in the IRA. This higher degree of flexibility in choosing IRA investments allows the IRA owner to invest in assets with greater wealth-building potential. However, the large amount of money held in self-directed IRAs makes them attractive targets for fraud promoters. Thus, self-directed IRA can be costly if not properly managed. In addition, because of the types of investments taxpayers with self-directed IRAs are able to make, taxpayers have a greater risk of running afoul of the prohibited transaction rules. The prohibited transaction rules impose an excise tax on certain transactions - such as sales of property, the lending of money or extension of credit, or the furnishing of goods, services, or facilities - between an IRA and a disqualified person. If you have a self-directed IRA, we need to review the specifics of your arrangement.

Other Steps to Consider Before the End of the Year

The following are some of the additional actions we should review before year end to see if they make sense in your situation. The focus should not be entirely on tax savings. These strategies should be adopted only if they make sense in the context of your total financial picture.

Accelerating Income into 2014

Depending on your projected income for 2015, it may make sense to accelerate income into 2014 if you expect 2015 income to be significantly higher. Options for accelerating income include:

(1) harvesting gains from your investment portfolio;

(2) if you own a traditional IRA or a SEP IRA, converting it into a Roth IRA and recognizing the conversion income this year;

(3) taking IRA distributions this year rather than next year;

(4) selling stocks or other assets with taxable gains this year;

(5) if you are self employed with receivables on hand, trying to get clients or customers to pay before year end; and

(6) settling lawsuits or insurance claims that will generate income this year.

Deferring Income into 2015

There are also scenarios (for example, if you think that your income will decrease substantially next year) in which it might make sense to defer income into the 2015 tax year or later years. Some options for deferring income include:

(1) if you are due a year-end bonus, asking your employer to pay the bonus in January 2015;

(2) if you are considering selling assets that will generate a gain, postponing the sale until 2015;

(3) delaying the exercise of any stock options you may have;

(4) if you are selling property, considering an installment sale;

(5) consider parking investments in deferred annuities;

(6) establishing an IRA, if you are within certain income requirements; and

(7) if your employer has a 401(k) plan, consider putting the maximum salary allowed into it before year end.

Deferring Deductions into 2015

If you anticipate a substantial increase in taxable income, we may want to explore deferring deductions into 2015 by looking at the following:

(1) postponing year-end charitable contributions, property tax payments, and medical and dental expense payments, to the extent you might get a deduction for such payments, until next year; and

(2) postponing the sale of any loss-generating property.

Accelerating Deductions into 2014

If you expect your income to decrease next year, accelerating deductions into the current we can into the current year to offset the higher income this year. Some options include:

(1) consider prepaying your property taxes in December;

(2) consider making your January mortgage payment in December;

(3) if you owe state income taxes, consider making up any shortfall in December rather than waiting until your return is due;

(4) since medical expenses are deductible only to the extent they exceed 10 percent (7.5 percent if you or your spouse are 65 before the end of the year) of your adjusted gross income (AGI), if you have large medical bills not covered by insurance, bunching them into one year may help overcome this threshold;

(5) making any large charitable contributions in 2014, rather than 2015;

(6) selling some or all of your loss stocks; and

(7) if you qualify for a health savings account, consider setting one up and making the maximum contribution allowable.

Miscellaneous Items

Finally, these are some additional miscellaneous items to consider:

(1) If you have a health flexible spending account with a balance, remember to spend it before year end (unless your employer allows you to go until March 15, 2015, in which case you'll have until then).

(2) If you own a vacation home that you rented out, we need to look at the number of days it was used for business versus pleasure to see if there is anything we can do to maximize tax savings with respect to that property. For example, if you spent less than 14 days at the home, it may make sense to spend a few more days and have the house qualify as a second residence, with the interest being deductible. For a rental home, rental expenses, including interest, are limited to rental income.

(3) We should also consider if there is any income that could be shifted to a child so that the income is paid at the child's rate.

(4) If you have any foreign assets, there are reporting and filing requirements with respect to those assets. Noncompliance carries stiff penalties.

Last but certainly not least, this has been the year of credit card breaches in the news. Tax related identity theft is even worse than last year. ***Never give your Social Security number over the phone*** and be aware of the numerous phone scams trying to gain control of your computer and your bank accounts.

We wish you the happiest and safest of holiday seasons this year.