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CLIENT NEWSLETTER

WINTER 2014-2015

Happy New Year!

Due to Congressional gridlock, there have been very few tax law changes in 2014. The chart at the end of this Newsletter lists the items that expired at the end of 2013 or are set to expire at the end of 2014, as well as the annual inflation adjustments for various tax items. It's possible that Congress will enact extensions to some or all of these provisions at the last minute as they did in January 2013.

New Rules for IRA Rollovers in 2015

There are two ways you can transfer funds *tax free* from one IRA to another:

(1) Direct Rollover: Have the funds transferred electronically from the old financial institution to the new one; or

(2) Indirect Rollover: Take the funds into your own hands and, within 60 days, deposit the funds in a new IRA.

Until the end of 2014 you can do as many Indirect Rollovers as you wish, but **effective January 1, 2015** Indirect Rollovers are limited to *only one time per year;* the second and succeeding indirect rollovers will be taxable even if done within 60 days.

Affordable Care Act (also known as ACA or Obamacare)

The provisions of the ACA were phased in over several years. As of 2014, most of the ACA is in effect. This is an extremely long and complex law that affects almost all Americans who are not on Medicare. Tax returns for 2014 include numerous ACA provisions including the penalty for not having health insurance and the credit or additional tax for paying too much or too little for health insurance, based upon your income.

Gifts to Other People

One of the most frequent questions we are asked concerns the taxability of gifts. Here's the general rule:

- The person who receives a gift (the "donee") is *never taxed* on the receipt of the gift. If the gift is invested, the *income* earned by the gift is taxable to the recipient.

- The person making the gift (the "donor") *might* have to file a Gift Tax Return (Form 709) and/or *might* owe Gift Tax.

Form 709, if required, is due at the same time as your income tax return (April 15 or extended to October 15). If you are single or if you are married and do not live a Community Property State, a Gift Tax Return is required if any *one recipient* was given more than $14,000 (the Annual Gift Tax Exclusion) during the year in total, regardless of the number of gifts. If you are married and live in a Community Property State (AZ, CA, ID, LA, NV, NM, TX, WA, WI), the Exclusion doubles to $28,000. If you are married and do not live in a Community Property State, you still get a $28,000 Exclusion, but you must file Form 709 to get this doubling. The Exclusion is adjusted every few years for inflation.

The Gift Tax Exclusion can be used to give up to $14,000 or $28,000 per year to as many people as you wish.

If your gifts in any one year to any one person exceed the Exclusion ($14,000 or $28,000), you can use part of your *Lifetime Estate and Gift Tax Exemption* to avoid paying tax on the gifts exceeding the Exclusion. For 2014 the Lifetime Exemption is $5,340,000 per person; for 2015 it is $5,430,000 per person. For married couples these amounts are doubled to $10,680,000 in 2014 and $10,860,000 in 2015.

Most people will never have estates that exceed the Lifetime Exemption, so using part of the Lifetime Exemption to avoid Gift Tax does not matter, and no Gift Tax or Estate Tax will ever need to be paid. *Estate and Gift Planning* are essential for those with estates that might exceed the Lifetime Exemption.

Documents Every Person Should Have

Everyone, regardless of age, can be injured, become sick, or die. So everyone needs these basic documents which should be prepared by an attorney licensed and practicing in your state of residence.

1. Your **LIVING WILL** states your wishes in the event you fall into a coma or other similar condition from which you are extremely unlikely to recover. The Living Will details whether or not you want extraordinary means to be used to keep you alive. Copies are usually acceptable.

2. Your **HEALTH CARE POWER OF ATTORNEY** designates one or more people to make health and medical decisions for you if you are unable to do so. Copies are usually acceptable.

   In some states (such as New York), the Living Will and Health Care Power of Attorney are combined into a single document called a **Health Care Proxy.**

3. Your **DURABLE POWER OF ATTORNEY** designates one or more people to act on your behalf in non-health matters, such as financial decisions. In most states, only the document with *original signatures* is valid.

4. Your **WILL** describes what should happen to your property in the event of your death. In most states only the Will with *original signatures* is valid. Your Will appoints one or more people (Executors or Personal Representatives) to handle your affairs after you die. Depending upon state law, your will might be required to be filed with a Court, a process referred to a **probate**.

5. A **REVOCABLE LIVING TRUST** is especially important in states (such as Arizona) that have complicated and/or expensive procedures for *probating* a Will. You transfer all your assets to the Trust, leaving you owning almost nothing, thereby avoiding the need to probate your Will. The Trust Document (which creates the Trust) then governs what happens to your property and who takes care of everything (the Trustee(s). You remain the Trustee for as long as you wish, or as long as you are able to. The creator of the Trust can change it at any time, or completely dissolve the Trust. For all practical purposes (except legal), it's as if the Trust did not exist. Therefore, this type of Trust is ignored for tax purposes. The Trust uses your Social Security Number as its Tax ID.

2014 Changes are summarized on the following pages.

Our best wishes to all for a great New Year.

Watch for more tax changes in 2015. Our News Flashes and Newsletters are posted on our website www.famtax.com.

Please feel free to call or write if you have any questions.

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Dan and Eric

Expiring Tax Provisions for 2013 — 2014	Expire End of
Individual Deductions	
$250 deduction for certain expenses of elementary and secondary school teachers.	2013
Choice to deduct state and local general sales taxes if greater than state income tax.	2013
Itemized deduction of mortgage insurance premiums as qualified residence interest.	2013
Exclusions from Income	
Up to $100,000 tax-free treatment of qualified charitable distributions from IRAs for individuals age 70½ or older.	2013
$2,000,000 exclusion for qualified forgiveness of principal residence indebtedness.	2013
Individual Tax Credits	
Many energy efficiency credits	2013
Education Deductions & Credits	
Deduction for up to $4,000 of qualified tuition and related expenses.	2013
Depreciation, Amortization & Other Business Deductions	
15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.	2013
50% bonus depreciation - additional first-year depreciation for qualified property.	2013
The right to revoke or alter a Code Sec. 179 expensing election without IRS's consent	2013
Qualified property for Section 179 expense includes computer software.	2013

2014-2015 Inflation and Other Adjustments:

	2014	2015
Auto mileage rate for business	56.0¢ per mile;	XXX¢ per mile
Auto mileage rate for medical & moving expenses	23.5¢per mile.	XXX
Auto mileage rate for charity	14¢ per mile	Same
Long-Term Capital Gains Rates	In 10-15% brackets: 0% In 15-36% brackets: 15% In 39.6% bracket: 20%	Same
Maximum IRA & Roth IRA contribution	$5,500 plus extra $1,000 if over age 50	Same
Maximum SEP & other defined contribution plans	Lesser of $52,000 or 25% of compensation	Lesser of $53,000 or 25% of compensation
Maximum 401(k),403(b),457 Plan contribution limit	$17,500 plus extra $5,500 if over age 50	$18,000 plus extra $6,000 if over age 50
Maximum wages taxable for Social Security	$117,000. Maximum employee tax = $7,254.00	$118,500. Maximum employee tax = $7,347.00
Social Security Tax Rate Medicare Tax Rate	6.2% 1.45%	Same
Annual Gift Tax Exclusion (per person receiving gifts)	$14,000 ($28,000 if married)	Same
Estate Tax Exemption	$5,340,000	$5,430,000
Personal & Dependent Exemption	$3,950	$4,000
Standard Deduction	Married: $12,400; Single: $6,200; Head of Household: $9,100	Married: $12,600; Single: $6,300; Head of Household: $9,250
Additional Standard Deduction for Age 65 or Blind	Married: $1,200 per spouse Unmarried: $1,550	Married: $XXX per spouse Unmarried: $XXX
Alternative Minimum Tax Exemption	Married: $82,100; Single or Head of Household: $52,800; Married filing Separately: $41,050	Married: $83,400; Single or Head of Household: $53,600; Married filing Separately: $41,700
Foreign Earned Income Exclusion	$99,200	$100,800
Flexible Benefit Account Maximum	$2,500	$2,550