

Individual Tax Planning Part II

In our previous newsletter, we provided some information for individuals to keep in mind as the year-end approaches. Since there is so much information to consider, this article will continue with some additional items that you need to be aware of.

Estate and Gift

The exclusion from estate tax for decedent's who die during 2015 will rise from \$5,340,000 to \$5,430,000. If you do not have an estate plan or have not updated your estate plan in the last few years, now is a good time to do so.

If you have not completed your gifting for 2014, you can gift up to \$14,000 per recipient for the year. The annual gift tax exclusion will remain at \$14,000 for 2015.

Capital Gains

For years, taxpayers took a financial beating due to stock market and real estate transactions. Due to the fact that a realized capital loss can only offset \$3,000 of income per year, taxpayers were left with large loss carryovers that seemed impossible to be used up. Then, in 2013, the stock market and real estate market started to recover. This allowed taxpayers to realize large gains and utilize their capital loss carryovers to offset these gains. Therefore, taxpayers may have little or no capital loss carryovers from 2013 to 2014.

Taxpayers need to plan carefully to ensure they are prepared for any tax bite that may arise when they report their 2014 capital transactions. Capital gains are generally taxed at rates between 0% and 20%. While these rates are lower than the rates for ordinary income, taxpayers need to be prepared and have the money either set aside for when they file their tax return or make an estimated payment to cover the liability. If large transactions occur at the end of the year, taxpayers have the option to annualize their income to avoid potential underpayment penalties. Having your tax professional involved during the process can keep potential surprises out of the equation.

One way to mitigate the tax on your capital gains is to sell off some of your stocks that have declined in value. Now is a good time to meet with your investment advisor to review your portfolio.

You might also choose to donate your appreciated stock to charity rather than selling the stock. By using this approach, you get to deduct the fair market value of the stock on your tax return as a charitable donation (so long as you have held the stock for more than one year). The appreciation on the stock is not taxed as a capital gain.

Energy Incentives

Residential Energy Efficient Property Credit: Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs.

Child Tax Benefits/Issues

- *Child Tax Credit:* A tax credit of \$1,000 per qualifying child under the age of 17 is available. In order to qualify for 2014, the taxpayer must be allowed a dependency deduction for the qualifying child. The credit is phased out at a rate of \$50 for each \$1,000 (or fraction of \$1,000) of modified adjusted gross income (AGI) exceeding the following amounts: \$110,000 for married filing jointly; \$55,000 for married filing separately; and \$75,000 for all other taxpayers. These amounts are not adjusted for inflation. A portion of the credit may be refundable.

Taxpayers who have taken advantage of this credit need to be prepared to adjust their withholding or estimated payments if their child will no longer qualify due to the age restriction or due to the AGI phase-out.

- *Credit for Adoption Expenses:* For 2014, the adoption credit limitation is \$13,190 of aggregate expenditures for each child, except that the credit for an adoption of a child with special needs is deemed to be \$13,190 regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between \$197,880 and \$237,880.
- *Kiddie Tax:* For 2014, the kiddie tax applies to: (1) children under 18; (2) 18-year old children who have unearned income in excess of the threshold amount, do not file a joint return and who have earned income, if any, that does not exceed one-half of the amount of the child's support; and (3) children between the ages of 19 and 23 and if, in addition to the above rules, they are full-time students. For 2014, the kiddie tax threshold amount is \$2,000.

We hope that this two-part newsletter on individual year-end planning has provided some useful tools for you. In the next month or so, you will have the opportunity to implement any of the ideas or fine tune measures that you already have in place. As always, we encourage you to contact our office if you have questions or need assistance with your particular situation. Our next newsletter will examine some opportunities for business year-end planning.

Our firm would like to wish you a Happy Thanksgiving!

Sincerely,

VT Williams & Associates, LLP

