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Dear Client:

While we are waiting to see if Congress will pass any legislation that will affect your 2014 taxes, we need to be prepared if things stay as they are. Congress has been quiet so far this year, which means that many of the taxpayer-friendly provisions that were in effect for 2013 are now expired. This article will outline a few key items that you need to keep in mind as the year-end approaches. We will notify you if any new laws are passed that might impact your 2014 taxes.

Planning and Income Minimization

Affluent taxpayers have many incentives for proper tax planning. In addition to the 2013 increases in income tax and dividend and long-term capital gains tax rates, the 3.8% net investment income tax also became effective in 2013. This tax applies to single filers with modified adjusted gross income (AGI) of more than $200,000 and joint filers whose modified AGI exceeds $250,000.

The range of investment income subject to the 3.8% tax is broad – it includes interest, dividends, capital gains, rental and royalty income, non-qualified annuities and businesses that are considered "passive activities." We can help you find ways to minimize taxable income and to avoid generating passive income, such as investing in tax-exempt interest and dividend securities rather than taxable interest and dividends securities.

New Developments in Health Care

- Following the rollout of the Affordable Care Act, some taxpayers may be eligible for a premium tax credit if they buy health care coverage through the government's Health Insurance Marketplace, fall within certain income limits, or meet other qualifications. If you are currently receiving a premium tax credit and have had changes in your household circumstances, such as a new job, you may want to report this to the Marketplace to avoid having to pay back a portion of the credit that you are receiving.

- If you didn't have minimum essential health care coverage in 2014, you may have to pay **the larger of** $95 per person ($47.50 for a child under 18) limited to a family maximum of $285 or 1% of your yearly household income that's above a certain filing threshold. This penalty will rise in 2015.

- Flexible spending accounts (FSA) can help you lower taxes by setting aside pretax dollars to cover medical bills. In the past, you may have been reluctant to contribute to FSAs because you risked losing money you didn't spend by year-end. You can now contribute up to $2,500 to an FSA in any year, and new rules allow you to carry over as much as $500 from one year to the next.

- Fully fund your Health Savings Account (HSA) before the end of the year. The maximum contribution for 2014 is $3,300 for singles, $6,550 for families, plus an additional $1,000 for taxpayers who are 55 or older.

Anticipate Expiring Tax Benefits

Beneficial tax provisions that expired at the end of 2013 include a deduction for state and local general sales taxes, one for teachers' out-of-pocket expenses and an above-the-line deduction for tuition and some related expenses. Those over age 70½ can no longer exclude from income any distributions made from individual retirement accounts to qualified charitable organizations.

In addition, if your home has gone through a foreclosure or short sale, you will now have to pay taxes on the amount of any mortgage forgiveness. (This rule may not apply if you are insolvent, however, so contact us for more information if you're in this situation).

Retirement Plan Opportunities

There's still time to make contributions to retirement accounts. We urge you to take full advantage of your retirement contribution options for the possible tax benefits now and the income security later.

In 2014, you can contribute up to a total of $5,500 ($6,500 if you're 50 or older) to a traditional or Roth IRA. Contributions to a traditional IRA may be tax-deductible, depending on your income and on whether you're covered by an employer's retirement plan. In addition, there are income limits for contributing to a Roth IRA. For those who are self-employed or own a small business, the contribution limits are significantly higher.

The chart below outlines the pertinent cost of living adjustments for 2014 and 2015:

	2014	2015
Defined Contribution	$52,000	$53,000
Defined Benefit	$210,000	$210,000
Maximum Compensation	$260,000	$265,000
401(k)/SARSEP/403(b) Deferrals	$17,500	$18,000
Catch-up Contributions	$5,500	$6,000
Highly Compensated	$115,000	$120,000
Key Employee/Officer	$170,000	$170,000
Social Security Wage Base	$117,000	$118,500

There are many other issues to consider depending upon your particular circumstances. If you would like for us to look into your particular planning needs, please contact us prior to the end of the year to review your situation. Be sure to keep us informed of any changes in circumstances from year-to-year to maximize any benefits or minimize any potential pitfalls.

Sincerely,

VT Williams & Associates, LLP