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32nd Annual Tax Letter | January 2015

Individual Tax Provisions

Affordable Care Act/ACA/Obamacare

So you thought of us as accountants, scrutinizing the myriad of tax laws to arrive at your lowest possible tax… well that is correct but now add a new hat for us to wear – inquiring about your health insurance to ensure compliance with the individual mandate provisions and for calculating an additional refund or tax due related to your insurance subsidy.

Most Americans were required by law to be covered under a health insurance policy in 2014 or be subject to a penalty of the greater of $95 per uninsured Individual or 1% of household income (For 2015 this increases to $325 or 2% of household income).

If you purchased your health insurance on the Marketplace/SHOP this last year you will be receiving a new Form 1095-A which we will need in order to properly prepare your return. Depending on your coverage (ie. family or individual policies) you may be receiving multiple forms.

Please be aware that your CPA is no more required to perform your annual physical than the IRS is authorized to administer colonoscopies!

Important Facts and Figures

		2014	2015
Standard Mileage Rate		.56	.575
Social Security Wage Base		$117,000	$118,500
Earnings Limit for SS recipients under age 66		$15,480	$15,720
Tax Free Gift Per Person		14,000	14,000
Tax Free Estate			
	Individual	$5,340,000	$5,430,000
	Married Couple	$10,680,000	$10,860,000
IRA	Under 50	$5,500	$5,500
	50 or older	$6,500	$6,500
SIMPLE	Under 50	$12,000	$12,500
	50 or older	$14,500	$15,500
401k	Under 50	$17,500	$18,000
	50 or older	$23,000	$24,000
HSA	Individual	$3,300	$3,300
	55 or older	$4,300	$4,350
HSA	Family	$6,550	$6,650
	55 or older	$7,550	$7,650

Tax Extender Provisions

And you say Washington doesn't get anything done… with 15 days to spare in the year Congress enacted the Tax Increase Prevention Act of 2014 (TIPA) and here's a "tip-a-for you" Congress…lets pass a 2015 Tax bill at the start of 2015 rather than the end! TIPA retroactively reinstated tax provisions that had sunsetted on 1/1/14 moving the new sunset date to … you guessed it 1/1/15. The bill was signed into law on December 19th by President Obama.

Key individual provisions re-enacted and re-sunsetted as follows:

Education

Above-the-line deduction for higher education expenses. The maximum deduction is $4,000 for married individuals whose AGI is less than $130,000 ($65,000 single) and phases out to zero once AGI hits $160,000 $80,000 single).

Note: American Opportunity and Lifetime Learning Education Tax Credits are unaffected by this bill and still available through 2017.

Teacher/Educator

Above-the-line $250 deduction for eligible elementary and secondary school teacher classroom expenses.

Home

Exclusion for discharged home mortgage debt related to qualified principal residence debt up to $2 million.

Mortgage insurance premiums deductible as qualified residence interest.

TIP: Folks you don't want to be paying mortgage insurance premiums (MIP) if you don't have to. Save yourself money and check with your mortgage provider as to the equity in your home. With values increasing and your debt reducing you may be able to eliminate MIP.

State Taxes

The option to deduct state and local general sales and use taxes instead of state and local income taxes remains in place for 2014.

And the best yet folks…

On 12/19/14 this law extended the ability for taxpayers older than 70 ½ to make tax-free distributions from their IRA's to charities… *this provision expired, of course, on 12/31/14!*

Business Tax Provisions

ACA

A number of provisions have become effective for businesses in 2014 and more to follow in 2015. We will be mailing a special edition newsletter to you later in January focusing on the key issues you will want to know.

Repair Regulations

"What the heck are these?" you might ask! Well, they are the culmination of a decade of work by the IRS and, you guessed it, not something we in business are generally going to like! Here again we will be sending you a separate paper of this issue (included with the ACA document).

*If you do not receive by February 1, 2015 and wish to obtain our analysis of these important issues, please contact us.

"Merry Christmas to us in business". What a present we found wrapped and signed just in time for Christmas – passage of the Tax Increase Prevention Act of 2014 aka Extender Bill!

Here's the big packages…

Depreciation

Business Equipment

Code Section 179, expensing election increased ability to write-off up to $500,000 in qualified assets (new or used) purchased in 2014 (For fiscal year filers would have until end of fiscal year beginning in 2014 and ending in 2015).

Qualified property generally includes:

- Tangible personal property
- Single-purpose agricultural structures
- Off-the-shelf computer software

Additionally, up to $250,000 of certain real property can be written off:

- Qualified leasehold improvement property
- Qualified retail improvement property
- Qualified restaurant property

Bonus Depreciation

This provision allows the immediate write-off of up to 50% of the adjusted basis of qualified property placed in service before 1/1/15.

Comparison to Code Section 179 Rules

- Bonus only applicable to new assets
- Bonus assets must be placed in service by 1/1/15 even for fiscal year filers
- No taxable income limitation for bonus depreciation – can create a loss to carryback to prior years or offset other taxable income
- Qualified leasehold property eligible but not restaurant or retail improvement property

Lesson Learned?

Traditionally 179 and bonus depreciation provisions have been utilized for economic stimulus but with Congress enacting at the end of the year obviously it is too late for stimulus. It appears to us at H&S that these provisions are now considered business "entitlements" and thus likely to be made a permanent part of the code in the future.

Tax Credits

The research credit which equals the sum of 20% of the excess of the qualified research expenses for the tax year over a base amount (unless an alternative simplified method is elected) has been extended.

What to know:

- The base amount is a fixed percentage of your business' average annual gross receipts for the four tax years before the credit year.
- Alternative simplified research credit equals 14% of the excess of the qualified research expenses for the year over 50% of the average qualified research expenses.
- These rules are extremely complex. Fortunately, should these provisions be applicable to your business, we have a team of experts who we can utilize to assist in the computations.

The work opportunity tax credit (WOTC) was extended allowing tax credits for employers hiring members of certain targeted groups of up to $6,000 per employee ($3,000 for qualified summer youth).

Eligible veterans include those with service connected disabilities or those on food stamps.

The new markets credit was extended for equity investments to acquire stock in a community development entity (CDE).

100% Gain exclusion on certain small business stock purchased before 1/1/15. This special tax provision continues to get extended by Congress and is a potential huge tax saver!

Key issues are as follows:

- Business must at all times be considered a small business – under $50 million in gross receipts.
- Business must be engaged in qualified activity (no financial businesses, service professions, farms, hotels or restaurants).
- Stock must be an original acquisition from the corporation.
- Five year holding period.
- Business must operate as a C Corporation.

Potential Reward – Up to $10 million tax free gain *per shareholder* upon sale of stock.