RKKM
CERTIFIED PUBLIC ACCOUNTANTS

December 2014

To our Clients and Friends:

Over the course of this past year, our firm has undergone some exciting changes. We started the year by unveiling a new firm name, a new logo and a new website. To end the year, we are excited to announce that we have welcomed a new staff member and are opening a second office in the City of Louisville located at 315 South Chapel Street, Louisville, Ohio 44641. Jay B. Barton, CPA joined our firm in September and will mainly be working with his clients out of the new Louisville office. Both office locations will be available to all of our clients, however, our main operations and the remainder of our staff will continue to operate out of our Belden Village office.

As your year comes to an end, year-end tax planning is especially challenging because Congress has yet to act on a host of tax breaks that expired at the end of 2013. Some may be retroactively reinstated and extended, but Congress may not decide the fate of these tax breaks until the very end of this year (and possibly not until next year). These breaks include, for individuals: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line-deduction for qualified higher education expenses; tax-free IRA distributions for charitable purposes by those age 70½ or older; and the exclusion for up-to-$2 million of mortgage debt forgiveness on a principal residence. For businesses, tax breaks that expired at the end of last year and may be retroactively reinstated and extended include: 50% bonus first year depreciation for most new machinery, equipment and software; the $500,000 annual expensing limitation; the research tax credit; and the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

Higher-Income-Earners

Higher-income-earners have unique concerns to address when mapping out year-end plans. They must be wary of the 3.8% surtax (net investment income tax, or NIIT) on certain unearned income and the additional 0.9% Medicare tax (hospital insurance tax, or HIT). The HIT applies to individuals for whom the sum of their wages and their self-employment income are in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately).

The NIIT is 3.8% of the lesser of: (1) net investment income (NII) or (2) the excess of modified adjusted gross income (MAGI) over $200,000 ($250,000 for joint filers or surviving spouses and $125,000 for a married individual filing a separate return). As year-end nears, a taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than net investment income and other individuals will need to consider ways to minimize both NII and other types of MAGI.

The HIT may also require year-end actions. Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward year end to cover the tax. For example, an individual earns $200,000 from one employer during the first half of the year and a like amount from another employer during the rest of the year. He would owe the additional Medicare tax, but there would be no withholding by

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either employer for the additional Medicare tax since wages from each employer do not exceed $200,000. In determining whether they may need to make adjustments to avoid a penalty for underpayment of estimated tax, individuals should be mindful that the additional Medicare tax may be over withheld. This could occur, for example, where only one of two married spouses works and reaches the threshold for the employer to withhold, but the couple's income will not be high enough to actually cause the tax to be owed.

Health Insurance Mandates

New for 2014 is the requirement under the Patient Protection and Affordable Care Act (PPACA) for an individual to carry minimum essential health insurance coverage for the entire year. Unless an individual qualifies for an exemption from coverage, they will be required to make an individual shared responsibility payment with their 2014 income tax return for any months in which they do not have minimum essential health insurance coverage.

The employer shared responsibility requirement (employer mandate) takes effect January 1, 2015 for applicable large employers (ALE). An ALE is an employer with at least 50 full-time or equivalent (FTE) employees. While ALEs with 100 or more FTEs are subject to the employer mandate starting in 2015, ALEs with 50 to 100 FTEs are exempt from the employer mandate until 2016. Employers with fewer than 50 FTEs are exempt from the employer mandate all together.

Year-End Tax Planning Moves

We have compiled a listing of additional actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

Individuals

• Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding and then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.

• Postpone income until 2015 and accelerate deductions into 2014 to lower your 2014 tax bill. This strategy may enable you to claim larger deductions, credits and other tax breaks for 2014 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2014. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2015 will result in a higher tax credit for an individual who plans to purchase health insurance on a health exchange and is eligible for a premium assistance credit.

• If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2014.

• If you converted assets in a traditional IRA to a Roth IRA earlier in the year, the assets in the Roth IRA account may have declined in value, and if you leave things as is, you will wind up paying a higher tax than is necessary. You can back out of the transaction by recharacterizing the conversion, that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

• Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2014 deductions even if you don't pay your credit card bill until after the end of the year.

• If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local

taxes) before year-end to pull the deduction of those taxes into 2014 if doing so will not create an alternative minimum tax (AMT) problem.

• Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2014, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions and personal exemption deductions. Other deductions such as for medical expenses of a taxpayer who is over age 65 or whose spouse is over age 65 as of the close of the tax year, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. Where you are subject to the AMT, or suspect you might be, these types of deductions should not be accelerated.

• Take required minimum distributions (RMDs) from your IRA, 401(k) plan or other employer-sponsored retired plan if you have reached age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70½ in 2014, you can delay the first required distribution to 2015, but if you do, you will have to take a double distribution in 2015-the amount required for 2014 plus the amount required for 2015. Think twice before delaying 2014 distributions to 2015-bunching income into 2015 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2015 if you will be in a substantially lower bracket that year.

• If you are eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2014. This is so even if you first became eligible on December 1, 2014.

• Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $14,000 made in 2014 to each of an unlimited number of individuals. You cannot carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the “kiddie tax”.

Businesses & Business Owners

• Businesses should buy machinery and equipment before year end and, under the generally applicable "half-year convention," thereby secure a half-year's worth of depreciation deductions for the first ownership year.

• Although the business property expensing option is greatly reduced in 2014 (unless legislation changes this option for 2014), do not neglect to make expenditures that qualify for this option. For tax years beginning in 2014, the expensing limit is $25,000, and the investment-based reduction in the dollar limitation starts to take effect when property placed in service in the tax year exceeds $200,000.

• Businesses may be able to take advantage of the "de minimis safe harbor election" (also known as the book-tax conformity election) to expense the costs of inexpensive assets and materials and supplies, assuming the costs do not have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit-of-property cannot exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there is no AFS, the cost of a unit of property cannot exceed $500. Where the UNICAP rules are not an issue, purchase such qualifying items before the end of 2014.

• A corporation should consider accelerating income from 2015 to 2014 where doing so will prevent the corporation from moving into a higher bracket next year. Conversely, it should consider deferring income until 2015 where doing so will prevent the corporation from moving into a higher bracket this year.

• A corporation should consider deferring income until next year if doing so will preserve the corporation’s qualification for the small corporation alternative minimum tax (AMT) exemption for 2014. Note that there is never a reason to accelerate income for purposes of the small corporation AMT exemption because if a corporation does not qualify for the exemption for any given tax year, it will not qualify for the exemption for any later tax year.

• A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2014 (and substantial net income in 2015) may find it worthwhile to accelerate just enough of its 2015 income (or to defer just enough of its 2014 deductions) to create a small amount of net income for 2014. This will permit the corporation to base its 2015 estimated tax installments on the relatively small amount of income shown on its 2014 return, rather than having to pay estimated taxes based on 100% of its much larger 2015 taxable income.

• If your business qualifies for the domestic production activities deduction for its 2014 tax year, consider whether the 50%-of-W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2014 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2014, even if the business has a fiscal year.

• If you own an interest in a partnership or S corporation consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. By contacting us, we can tailor a particular plan that will work best for you. We also will need to stay in close touch in the event Congress revives expired tax breaks, to assure that you do not miss out on any resuscitated tax saving opportunities. If you are not already signed up for our email list, please visit our website at http://www.rkkm.com/emaillist to sign up. As of the printing of this letter, the House has passed a bill to extend the tax breaks that expired at December 31, 2013 so that they are effective through December 31, 2014. If the Senate passes this bill, we will send out an e-mail newsletter informing our clients of any changes and post the updated information to our website.

Attached to this letter for your convenience is a Quick Reference Chart which details commonly requested rates, figures and limits for 2014 and for 2015. Please note that the chart has been prepared as of the date in the bottom right corner of the chart as the tax law currently stands and is subject to change if Congress acts retroactively to revive any expired tax breaks. In the event of any changes, we will issue an email alert and also post the most current Quick Reference Chart to our website.

We would like to thank you for allowing us to be of service to you. If we can help in any way, please do not hesitate to contact our office.

Very truly yours,

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Quick Reference Chart

	2014	2015
Mileage rate - business travel	56¢	57.5¢
Mileage rate - medical or moving	23.5¢	23¢
Mileage rage - charitable	14¢	14¢
Federal unemployment wage base	$7,000	$7,000
Ohio unemployment wage base	$9,000	$9,000
401(k), 403(b) or 457 retirement plan deferral limit	$17,500	$18,000
Catch up contribution (age 50 or older)	$5,500	$6,000
Defined contribution plan total contribution limit	$52,000	$53,000
SIMPLE IRA deferral limit	$12,000	$12,500
Catch up contribution (age 50 or older)	$2,500	$3,000
Traditional and ROTH IRA contribution limit	$5,500	$5,500
Catch up contribution (age 50 or older)	$1,000	$1,000
Earned income limits for Social Security recipients:		
If you will not reach full retirement age by year end	$15,480	$15,720
During year of full retirement, prior to full retirement age	$41,400	$41,880
After full retirement age (66 for those born 1943-1954)	No limit	No limit
Standard deduction:		
Single or married filing separate	$6,200	$6,300
Married filing joint	$12,400	$12,600
Head of household	$9,100	$9,250
Personal exemption	$3,950	$4,000
Phase-out ranges for single	$254,200 - $376,700	$258,250 - $380,750
Phase-out ranges for married filing joint	$305,050 - $427,550	$309,900 - $432,400
Phase-out ranges for married filing separate	$152,525 - $213,775	$154,950 - $216,200
Maximum earned income credit (EIC)	$6,143	$6,242
Flexible spending arrangement (FSA) contribution limit	$2,500	$2,550
Health savings account (HSA) contribution limits:		
Self-only coverage	$3,300	$3,350
Family coverage	$6,550	$6,650
Catchup contributions (age 55 or older)	$1,000	$1,000
Code Sec. 179 expense limitation	$250,000	$25,000
Code Sec. 179 investment limitation	$500,000	$200,000
Social Security (OASDI) wage base	$117,000	$118,500

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As of 1/1/15