

# 2014 Tax Update +

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# Resuscitated Tax Breaks

- ▶ State Sales Tax in Lieu of Income Tax Deduction
- ▶ Above the Line Educator Deduction of \$250
- ▶ \$2mil of forgiven Debt Cancellation on Primary Residence
- ▶ \$100,000 of Direct Payouts from IRAs to a Charitable Organization
- ▶ 50% Bonus Depreciation
- ▶ R&D Tax Credit
- ▶ \$500,000 of Section 179 Expensing

# The Bonus

- ▶ Tax Deferred ABLE Savings Accounts
  - ▶ Nondeductible pay-ins of up to \$14,000 per year, similar to a 529 plan
  - ▶ This is for those who become blind or disabled before age 26
  - ▶ Payouts are tax free if used for living expenses, housing, education, transportation

# Itemized Deduction Phase Outs

- ▶ 2014 3% Reduction applies to AGI over \$254,200
- ▶ 2015 3% Reduction applies to AGI over \$258,250
- ▶ The limitation cannot exceed 80% of the itemizations
- ▶ Exempted from the cuts are;
  - ▶ Medical
  - ▶ Investment interest
  - ▶ Casualty losses
  - ▶ Gambling losses to the extent of winnings

# Kiddie Tax

- ▶ First \$1,000 of unearned income tax free, the next \$1,000 is taxed at 10%, additional amounts are taxed at parents tax rate for 2014
- ▶ For 2015 the amount is increased to \$1,050 and \$1,050 respectively
- ▶ This is unearned income and assuming there was no earned income

# Tax Rates Schedules

2014

- ▶ Married Filing Joint
  - ▶ \$18,150=10%
  - ▶ \$73,800=15%
  - ▶ \$148,850=25%
  - ▶ \$226,850=28%
  - ▶ \$405,100=33%
  - ▶ \$457,600=35%
  - ▶ Over = 39.6%

2015

- ▶ Married Filing Joint
  - ▶ \$18,450=10%
  - ▶ \$74,900=15%
  - ▶ \$151,200=25%
  - ▶ \$230,450=28%
  - ▶ \$411,500=33%
  - ▶ \$464,850=35%
  - ▶ Over = 39.6%

# Single

## ▶ 2014

- ▶ \$9,075=10%
- ▶ \$36,900=15%
- ▶ \$89,350=25%
- ▶ \$186,350=28%
- ▶ \$405,100=33%
- ▶ \$406,750=35%
- ▶ Over=39.6%

## ▶ 2015

- ▶ \$9,225=10%
- ▶ \$37,450=15%
- ▶ \$90,700=25%
- ▶ \$189,300=28%
- ▶ \$411,500=33%
- ▶ \$413,200=35%
- ▶ Over=39.6%

# Capital Gains

- ▶ If Tax Rate is 10% or 15% Capital Gains Rate = 0
- ▶ If Tax Rate is 25%, 28%, 33%, or 35% Capital Gains Rate is 15% (could also be +3.8%NIIT)
- ▶ If Tax Rate is 39.6% Capital Gains Rate is 20% + 3.8%NIIT

# General Deductions and Credits

- ▶ Standard deduction increases by \$200 in 2015
- ▶ Personal Exemption increases by \$50 in 2015
- ▶ Auto Standard Mileage Rate increased to \$0.575 for Business
  - ▶ Standard Mileage Rate for Medical Decreases to \$0.23
  - ▶ For Moving Decreases to \$0.23
  - ▶ For Charitable Stays Steady \$0.14

# Medicare Part B

Beneficiaries who file an individual tax return with income:	Beneficiaries who file a joint tax return with income:	Part B income-related monthly adjustment amount	Total monthly Part B premium amount
Less than or equal to \$85,000	Less than or equal to \$170,000	\$0.00	\$104.90
Greater than \$85,000 and less than or equal to \$107,000	Greater than \$170,000 and less than or equal to \$214,000	\$42.00	\$146.90
Greater than \$107,000 and less than or equal to \$160,000	Greater than \$214,000 and less than or equal to \$320,000	\$104.90	\$209.80
Greater than \$160,000 and less than or equal to \$214,000	Greater than \$320,000 and less than or equal to \$428,000	\$167.80	\$272.70
Greater than \$214,000	Greater than \$428,000	\$230.80	\$335.70

# Extra Goodies Social Security

- ▶ Social Security Cost of Living 2014 1.7% 2015 1.5%
- ▶ Maximum Earnings 2014 \$15,720 2015 \$15,480
- ▶ Minimum Earnings per Qtr. 2014 \$1,200 2015 \$1,220
- ▶ Maximum Wage Subject 2014 \$117,000 2015 \$118,500

# ACA (AKA Obamacare)

- ▶ As of 2014 everyone is required to have health insurance or pay a penalty with certain exclusions.
- ▶ When purchasing from an exchange there may be subsidies to help offset the cost if the taxpayer is between 100-400% of the poverty level.
- ▶ Problem # 1: someone needs to pay for this and that is done with increased Medicare taxes to those who earn over a certain amount which varies whether it is earned or investment income.
- ▶ Problem # 2 when applying you are basing your premiums on assumptions of your next years earnings.

# Additional Medicare Tax Earned Income

- ▶ 0.9% Additional Medicare Tax applies to earned income over:
  - ▶ Married Filing Joint \$250,000
  - ▶ Married Filing Separately \$125,000
  - ▶ Single \$200,000
- ▶ This applies to wages or self employed income
- ▶ With a joint return there may not be enough withholdings, as employers are not required to withhold additional amount until earnings exceed \$200,000

# Net Investment Income Tax (NIIT)

- ▶ Reported on Form 8960 - Net Inv. Income Tax
- ▶ 3.8% applies to "lesser of" MAGI above the threshold or actual net investment income (MAGI is generally the same as AGI unless foreign income is excluded)
- ▶ MFJ-\$250k, S-\$200k, MFS-\$125k
- ▶ GIDARR – Gains, Interest, Dividends, Annuities, Royalties, and Rent
- ▶ Trusts and estates exceeding \$12,150 in 2014 - The start of the 39.6% bracket and the 3.8% net investment income tax
- ▶ Distributions to the Beneficiaries allows for a reduction in the above tax bracket and elimination of NIIT

# Strategies to Reduce NIIT

- ▶ Retirement funds are exempt from NIIT
- ▶ Parents should consider dropping Form 8814 on child's investment income
- ▶ Tax Exempt Interest (MAGI exempt)
- ▶ Deferring Income (lowering MAGI)
  - ▶ Sale Proceeds to an Installment Sale
  - ▶ Sale to a Like-kind Exchange (1031)
- ▶ Gifting appreciated stock to a church or charity rather than Schedule D

## Continued.....

- ▶ Limit taxable sales that affect MAGI
- ▶ 'Income Producing' Property could be transferred/gifted to others
- ▶ For Emergencies, tap into a Line-of-Credit or Loan, rather than your IRA or Retirement Account
- ▶ Contribute to a 401(k) or IRA
- ▶ If you qualify elect to be treated as a Real Estate Professional

# Real Estate Professional

- ▶ Net rental income not subject to NIIT
- ▶ A complex and generally misunderstood tax concept
- ▶ If the taxpayer qualifies can make a big difference on income and losses in rental activities

# What Is a Real Estate Professional

- ▶ Rule # 1 you need to spend at least 750 hours working in a real estate trade or business
  - ▶ A Real Estate Broker, Property Manager, Contractor, Developer
- ▶ Rule # 2 more than  $\frac{1}{2}$  your total working hours must be in a real estate trade or business
- ▶ You must materially participate in your rental activity.
  - ▶ Put in at least 100 hours if no one else is putting in more or 500 hours if they are
  - ▶ May elect to group properties as one to meet the requirement of material participation

# Benefits

- ▶ Rental activities are considered passive and losses are limited to a maximum of \$25,000 per year assuming your AGI is less than \$100,000
- ▶ If you qualify there is no AGI limit, therefore you could reduce your AGI and avoid some or all of the NIIT
- ▶ If you have net income from the rental activity it is considered earned income and not subject to the NIIT

# Downside to Grouping

- ▶ If you have previously suspended losses and now group, the losses are now divided among the remaining properties
- ▶ The election needs to be made in writing upon your decision to do so and if you do not qualify in a subsequent year you would not qualify and that could create a carryover issue
- ▶ Whether you group or not you need to keep a good ledger of your time spent to substantiate your qualifying

# What is the IRS Looking at Lately

- ▶ National Research Projects
  - ▶ Mortgage Interest Deduction
  - ▶ Real Estate Professionals
  - ▶ Miscellaneous Itemized Deductions
  - ▶ Foreign Bank Accounts
- Stock Trading
  - Schedule C Businesses
  - Pass Through Entities
  - Ministers
  - Contributions