COLE, EVANS & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM JEFFERSON COLE, C.P.A.
CAROL T. BARNES, C.P.A.
C. WILLIAM GERARDY, JR., C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPETH, C.P.A.
STEVEN R. BAYER, C.P.A.
TIMOTHY R. DURR, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
ROBERT A. BUSBY, C.P.A.
ANNE-MARIE COLE, C.P.A.
TIMOTHY W. BORST, C.P.A.
ERIC D. SMITH, C.P.A.
KYLE S. DOBBINS, C.P.A.
MATTHEW R. HAHN, C.P.A.
FAYE D. CAMPBELL, C.P.A.

JOHN A. CASKEY, C.P.A.
J. AMY HEMMINGS, C.P.A.
LINDA K. BIBLE, C.P.A.
BRENDA B. GRIMM, C.P.A.
DILLON WRIGHT, C.P.A.
KATHRYN THAXTON GRAY, C.P.A.
JANA JOHNSTON COX, C.P.A.
KELLY B. NELSON, C.P.A.
GEORGE D. FAUBER III, C.P.A.
ANDREW K. WILHITE, C.P.A.
R. SCOTT MOORE, C.P.A.

FIFTH FLOOR TRAVIS PLACE
624 TRAVIS STREET
SHREVEPORT, LOUISIANA 71101-3012

www.cepcpa.com

M. ALTON EVANS, JR.
PARTNER EMERITUS

AUSTIN G. ROBERTSON, JR., C.P.A.
OF COUNSEL

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:
P. O. DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

NOVEMBER 2014

THREE-PEAT!

Personal items in this newsletter are usually limited to recognizing new CPAs, scholarship winners, retirements, etc. However, to counter the perception of CPAs as "green-eye-shade-wearing nerds," we are again compelled to mention the championship of one of our golf teams in the recent Society of Louisiana CPAs Scholarship Tournament. Robert Busby, Matt Hahn, Eric Smith, and Bailey Baynham captured first place in the scramble with a score of 20 under par, repeating their championship performances of 2012 and 2013. Congratulations…now, back to work.

YEAR-END TAX PLANNING

The opportunity for much of this year's tax planning has probably already passed. There remains, however, time to take some steps to change your 2014 income tax liability.

The higher income tax rates from 2013 continue unchanged for 2014 except for minor inflation adjustments. Most high bracket taxpayers are best served by equalizing income between 2014 and 2015 rather than by minimizing income for 2014. For 2014, the top federal bracket for income above $406,750 ($457,600 for couples) is 39.6 percent. The add-on ObamaCare tax on net investment income is 3.8 percent and is based on the lesser of total investment income or the amount of income that exceeds $200,000 ($250,000 for couples). The additional Medicare tax on salary, wages, earned income, etc. for those earning above $200,000 ($250,000 on a joint return) is 0.9 percent on the excess. Taxpayers with taxable incomes above $406,750 ($457,600 for couples) will also pay an additional five percent on capital gains and qualified dividends. It is better to have two years with each being in the same tax bracket than to have the same total income for the two years with one year above and one year below that bracket. Accordingly, for taxpayers who are comfortably above a bracket amount, accelerating deductions and deferring income might be appropriate, and such taxpayers might want to consider the following:

For 2014

Deductible Interest. Consider making your January 2015 mortgage payment in December 2014, so that the interest will be deductible on your 2014 return.

Medical and Miscellaneous Expenses. To be deductible, medical expenses must exceed 10 percent (7.5 percent for taxpayers or their spouses age 65 or older) of adjusted gross income, and miscellaneous itemized deductions must exceed 2 percent of adjusted gross income. Bunching, if possible, two years of your unreimbursed medical or miscellaneous itemized deductions (such as certain job-related expenses and investment expenses) into one year might allow you to exceed the deduction floors and obtain a deduction for at least part of these expenses. Thinking longer term, should you have a Health Savings Account?

Charitable Contributions. If you are planning to make a charitable contribution in early 2015, consider a 2014 year-end contribution instead. If

(Continued on next page)

you hold highly appreciated stock or other investment, you might want to make a charitable contribution of the investment security (rather than of cash) to your charity. By doing so, you will get a deduction for the full fair market value of the investment security without being required to recognize a capital gain. Also, contributions charged on your credit card in 2014 count as 2014 deductions, even if you don't receive or pay the credit card bill until 2015.

State Income Taxes. If you pay quarterly estimated state income taxes, you might consider paying the fourth installment of your 2014 estimate before December 31 so that it will be deductible on your 2014 tax return. You might also want to include any projected state balance due for 2014 (generally payable in 2015) in the estimated tax payment paid in 2014. Doing so will allow you to deduct the payment in 2014 rather than in 2015. If you are an employee, you might want to increase the amount withheld from your remaining 2014 paychecks to cover any projected balance due.

If, however, high income in 2014 causes your itemized deductions to be limited, if you expect to be in a much higher tax bracket in 2015, or if you are subject to the Alternative Minimum Tax for 2014, accelerating these deductions into 2014 might not be your best course of action. We will be glad to help you with this analysis.

Long-Term Deferrals

Long-term deferrals are even more attractive now with the higher rates for 2014 and thereafter.

Retirement Savings. Maximize your 2014 contributions to any tax-deferred retirement savings plan in which you participate, such as a 401(k) plan, a 403(b) plan, or a 457(b) plan.

Part-time businesses, self-employed business owners, etc. Self-employed business owners (including those with part-time or sideline businesses) who do not have a tax-deferred retirement plan should consider adopting one before year end. With 401(k) plans, a self-employed person can generally defer the income taxation on the first $17,500 ($23,000 in some cases) of self-employment earnings and approximately 20 percent of earnings up to $172,500. For those sideline businesses without employees, this can be done without any staff coverage cost. Other options include Simplified Employed Pension plans (SEPs) and SIMPLE plans, both of which are often very cost effective.

Taxes on Investment

If you have investments with unrealized losses, you might think about replacing some of your investments before the end of the year. Capital losses offset realized capital gains (including capital gain distributions from mutual fund investments). Any net capital loss is deductible against up to $3,000 of ordinary income per year. Any unused capital losses for 2014 may be carried forward for deduction in future years, subject to limitations.

Can We Help? Please remember that the above comments and suggestions are general strategies only. They might or might not be appropriate for you. As always, please let us know if we can help with your planning.

REQUIRED DISTRIBUTIONS FROM QUALIFIED PLANS AND IRAS DUE DECEMBER 31, 2014

As you will probably recall, participants in qualified plans and owners of IRAs who are age 70½ or more must generally receive a required minimum distribution from the plan or IRA on or before December 31, 2014. The distributions are based on the December 31, 2013 account balances.

The penalty for failure to take a required distribution is substantial (50 percent of the undistributed amount). If you have received minimum required distributions in the past, a distribution will probably be required for 2014. If you believe that you are required to take a required minimum distribution from a plan or IRA, the plan administrator or IRA custodian should be made aware and provide for an appropriate distribution.

We will be happy to answer any questions you might have concerning required minimum distributions or distribution planning in general.

Cole, Evans & Peterson, CPAs
www.cepcpa.com

624 Travis Street Shreveport, Louisiana 71101 (318) 222-8367

Tax & Business Alert

NOVEMBER 2014

INDIVIDUAL YEAR-END TAX PLANNING IDEAS

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2014 return and in future years. Here are a few ideas.

Maximize the Benefit of the Standard Deduction. For 2014, the standard deduction is $12,400 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,200. Currently, it looks like these amounts will be about the same for 2015. If your total itemized deductions each year are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2015 to the end of 2014. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2015. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.

Consider Deferring Income. It may be beneficial to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2015 or affected by unfavorable phase-out rules that reduce or eliminate various tax breaks (child tax credit, education tax credits, and so forth) in 2014. By deferring income every other year, you may be able to take more advantage of these breaks every other year. For example, if you're in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2015. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year.

Secure a Deduction for Nearly Worthless Securities. If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very

Continued on Page 2.

Individual Year-end Tax Planning Ideas continued.

difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchased within 30 days before or after the sale).

Invest in Tax-free Securities. The most obvious source of tax-free income is tax-exempt securities, either owned outright or through a mutual fund. Whether these provide a better return than the after-tax return on taxable investments depends on your tax bracket and the market interest rates for tax-exempt investments. With the additional layer of net investment income taxes on higher income taxpayers, this year might be a good time to compare the return on taxable and tax-exempt investments. In some cases, it may be as simple as transferring assets from a taxable to a tax-exempt fund.

Again, these are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas. ■

EIGHT TIPS FOR DEDUCTING CHARITABLE CONTRIBUTIONS

If you are looking for a tax deduction, giving to charity can be a "win-win" situation. It's good for them and good for you. Here are eight things you should know about deducting your contributions to charity:

1. You must donate to a qualified charity if you want to deduct the contribution. You can't deduct contributions to individuals, political organizations, or candidates.

2. To deduct your contributions, you must file Form 1040 and itemize deductions.

3. If you get a benefit in return for your contribution, your deduction is limited. You can only deduct the amount of your contribution that's more than the value of what you received in return. Examples of such benefits include merchandise, meals, tickets to an event, or other goods and services.

4. If you give property instead of cash, the deduction is usually that item's fair market value. Fair market value is generally the price you would get if you sold the property on the open market.

5. Used clothing and household items generally must be in good condition to be deductible. Special rules apply to vehicle donations.

6. You must file Form 8283, Noncash Charitable Contributions, if your deduction for all noncash contributions is more than $500 for the year.

7. You must keep records to prove the amount of the contributions you make during the year. The kind of records you must keep depends on the amount and type of your donation. For example, you must have a written record of any cash you donate, regardless of the amount, to claim a deduction. It can be a cancelled check, a letter from the organization, or a bank or payroll statement. It should include the name of the charity, the date, and the amount donated. A cell phone bill meets this requirement for text donations if it shows this same information.

8. To claim a deduction for donated cash or property of $250 or more, you must have a written statement from the organization. It must show the amount of the donation and a description of any property given. It must also say whether the organization provided any goods or services in exchange for the contribution. ■

DOES YOUR BUSINESS NEED A BUY/SELL AGREEMENT?

It is important that businesses with more than one owner have a written buy/sell agreement specifying what happens when an owner withdraws from the business. A buy/sell agreement is a contract between the owners (or the owners and the business entity itself) that establishes rules and restrictions applicable to changes in ownership.

The typical buy/sell agreement provides that an owner's interest in the business will be sold (or at least offered for sale) at a specified price to the other owners and/or to the business entity itself upon the occurrence of specified events. This prevents unwanted persons from becoming members of the ownership group and ensures a ready market for closely held ownership interests. It also provides liquidity to a deceased owner's family and assures the remaining owners that they will be able to continue the business without interference from the family of the deceased owner. Buy/sell agreements also offer estate planning benefits by establishing a value for the business prior to an owner's death.

Common methods for determining the purchase price under a buy/sell agreement include (1) establishing a fixed price in the contract, (2) requiring an independent appraisal, or (3) specifying a formula such as a percentage of book value. Events that trigger a buy/sell agreement are specified by the owners in the contract. Generally, buy/sell agreements are triggered by any circumstance that might cause an owner to dispose of an ownership interest—such as death, disability, bankruptcy, or retirement.

The best time to establish a buy/sell agreement is now, before a problem develops. Please give us a call if you would like to discuss the merits of a buy/sell agreement for your business. ■

THE TAX BENEFITS OF SELLING RATHER THAN TRADING IN BUSINESS VEHICLES

Although a vehicle's value typically drops fairly rapidly, the tax rules limit the amount of annual depreciation that can be claimed on most cars and light trucks. Thus, when it's time to replace a vehicle used in your business, it's not unusual for its tax basis to be higher than its value.

If you trade the vehicle in on a new one, the undepreciated basis of the old vehicle simply tacks onto the basis of the new one (even though this extra basis generally doesn't generate any additional current depreciation because of the annual depreciation limits). However, if you sell the old vehicle rather than trading it in, any excess of basis over the vehicle's value can be claimed as a deductible loss to the extent of your business use of the vehicle.

For example, if you sell a vehicle with an adjusted basis of $20,000 for $12,000, you'll get an immediate write-off of $8,000 ($20,000 – $12,000). If you trade in the vehicle rather than selling it, the $20,000 adjusted basis is added to the new vehicle's depreciable basis and, thanks to the annual depreciation limits, it may be years before any tax deductions are realized. ■

WRITE OFF DAMAGED OR OBSOLETE INVENTORY ITEMS

Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items. The carrying cost of any such items may be written down to their probable selling price (net of selling expenses). [This rule does not apply to businesses that use the last in, first out (LIFO) method because LIFO does not distinguish between goods that have been written down and those that have not.]

To claim a deduction for a write-down of obsolete inventory, you are not required to scrap the item. However, in a period ending not later than 30 days after the inventory date, the item must be actually offered for sale at the price to which the inventory is reduced. ■

COLE EVANS & PETERSON
624 TRAVIS ST STE 500
SHREVEPORT, LA 71101-3014

TAKING ADVANTAGE OF FLEXIBLE SPENDING ACCOUNTS (FSAs)

If your employer has a healthcare and/or dependent care FSA, before year-end you must specify how much of your 2015 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Watch out, though, FSAs are "use-it-or-lose-it" accounts—you don't want to set aside more than what you'll likely have in qualifying expenses for the year.

Married couples who both have access to FSAs will also need to decide whose FSA to use. If one spouse's salary is likely to be higher than what's known as the FICA wage limit (which is $117,000 for 2014, and will likely be somewhat higher next year) and the other spouse's will be less, the one with the lesser salary should fund as much of the couple's FSA needs as possible. The reason is the 6.2% social security tax levy for 2015 is set to stop at the FICA wage limit (and doesn't apply at all to money put into an FSA). Thus, for example, if one spouse earns $125,000 and the other $40,000, and they want to collectively set aside $5,000 in their FSAs, they can save $310 (6.2% of $5,000) by having the full amount taken from the lower-paid spouse's salary versus having 100% taken from the other one's wages. Of course, either way, the couple will also save approximately $1,400 in income and Medicare taxes because of the FSAs.

If you currently have a healthcare FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you'll lose the remaining balance. It's not that hard to drum some things up: new glasses or contacts, dental work you've been putting off, or prescriptions that can be filled early. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. The information contained in this newsletter was not intended or written to be used and cannot be used for the purpose of (1) avoiding tax-related penalties prescribed by the Internal Revenue Code or (2) promoting or marketing any tax-related matter addressed herein. © 2014