YEAR-END YEAR-ROUND **TAX PLANNING GUIDE**

2014

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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2014

Are you confident you are doing everything you can to minimize your income taxes? If not, it may be time for a fresh look. Your tax picture — and the tax law — may change from year to year. A year-end review can suggest new tax-saving opportunities and show you new ways to take advantage of various planning strategies.

Year-End Tax Planning for 2014 provides tips for lowering your 2014 personal and business income taxes. As you read through the guide, you'll also find explanations of key aspects of the current federal tax law and how those rules may apply to your situation. Most of the strategies discussed in *Year-End Tax Planning for 2014* will be effective only if they are implemented before the end of the year. So we urge you to begin planning soon.

Of course, your personal and business financial situations are unique. The strategies discussed in *Year-End Tax Planning for 2014* may or may not be appropriate for you. Be sure to secure professional tax advice before attempting to implement any of the ideas presented.

Individual Taxes

What you need to know

Year-end tax planning is essentially a matter of projecting your *gross income* for the year and looking for ways to minimize your *taxable income*.

About projecting your income

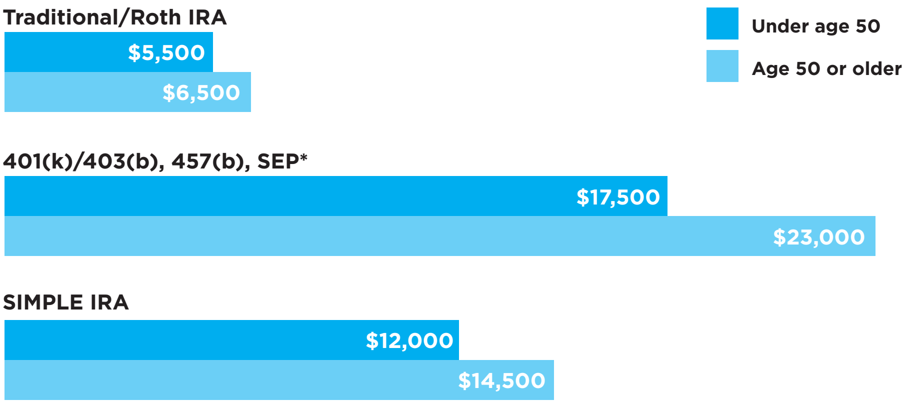
Form 1040 requires you to list all the income you received during the year from various sources. You can use the accompanying worksheet to project your 2014 gross income.

Estimate Your 2014 Income

Wages, salaries, tips, etc.	$ ____________
Interest and dividends	$ ____________
Business income (loss)	$ ____________
Farm income (loss)	$ ____________
Capital gain (loss)	$ ____________
Rents, royalties, partnerships, S corporations, trusts, etc.	$ ____________
Unemployment compensation	$ ____________
Alimony received	$ ____________
Taxable Social Security benefits	$ ____________
Taxable distributions from IRAs, pensions, and annuities	$ ____________
Taxable refunds of state and local income taxes	$ ____________
Other income	$ ____________
Total estimated income	$ ____________

Do you contribute to a retirement savings plan at work? With an employer-sponsored retirement savings plan — such as a 401(k), 403(b), or SIMPLE plan — your pretax contributions to the plan and any earnings on those contributions won't be subject to federal income taxes until you begin receiving funds from the plan. Some plans also allow you to make after-tax Roth contributions. These contributions won't reduce current taxable income but can be withdrawn tax free later, along with the related earnings, if certain requirements are met.

Retirement Plan Contribution Limits for 2014



Note that not all employer plans permit participants who have reached age 50 to contribute the higher amounts indicated. And additional contribution limitations could apply.

**** Only SEP plans established before 1997 (SAR-SEPs) may allow employees to make pretax contributions.***

How about an FSA? An employer-sponsored flexible spending account (FSA) lets you elect to pay qualified health or dependent care expenses on a pretax basis, thus reducing your taxable income. The plan account reimburses you for the amount you spend on expenses allowed by the plan. Some plans allow you to use a plan-provided debit or credit card to pay expenses directly.

If you're receiving Social Security retirement benefits. Retired taxpayers are sometimes caught off guard when they learn their Social Security benefits aren't necessarily tax free. When "provisional income" — modified adjusted gross income (including tax-exempt municipal bond interest) plus half of the Social Security benefits — exceeds certain levels, a portion of the Social Security benefit must be included in income for tax purposes. Look carefully at your year-end transactions to determine if realizing additional income in 2014 would increase the amount of your benefits that will be subject to income tax.

What Portion of Your Social Security Benefits Will Be Taxable?

On a joint return*

Provisional income $32,000 or less	***Provisional income between $32,000 & $44,000***	***Provisional income over $44,000***

On a single or head-of-household return

Provisional income $25,000 or less	***Provisional income between $25,000 & $34,000***	***Provisional income over $34,000***

** The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.*

Adjusted gross income (AGI) — another calculation. Once you've accounted for all of your income, the next step is to figure your AGI. AGI is nothing more than a total of your income from various sources minus certain "adjustments" (also called "above-the-line" deductions) allowed by law. The accompanying worksheet lists adjustments that are deductible in computing AGI.

Minimizing AGI gives you a variety of tax advantages, so be sure you don't overlook any adjustments you're entitled to use. These above-the-line deductions are more valuable than itemized deductions of the same amount because they reduce your AGI and help preserve other tax breaks that are subject to AGI limits. They're available to you whether or not you itemized your deductions.

About your 2014 tax payments

Employees generally pay their income taxes through payroll withholding. If you have non-wage income — rental income, self-employment earnings, alimony, investment income, etc. — you generally have to make quarterly estimated tax payments. (Or you can have your employer take more tax out of your earnings to cover the tax on your non-wage income.)

Estimate Your AGI

Your estimated income (from page 2)	$ ____________
Adjustments*	
Alimony paid	$ ____________
Traditional IRA contributions	$ ____________
Student loan interest	$ ____________
Moving expenses	$ ____________
Health savings account contributions	$ ____________
Self-employment tax deduction	$ ____________
Self-employed health insurance costs	$ ____________
Self-employed SEP, SIMPLE, and qualified retirement plan contributions	$ ____________
Penalty on early withdrawal of savings	$ ____________
Total adjustments	$ ____________
Adjusted gross income (AGI): (Total income minus total adjustments)	$ ____________

* *This list is not all-inclusive, and various requirements and limitations apply.*

To avoid a 2014 tax underpayment penalty, most taxpayers are required to pay either 90% of their 2014 tax or 100% of their 2013 tax, whichever is less. However, if your 2013 AGI was more than $150,000 ($75,000 if your 2013 filing status was married filing separately), you must pay 90% of your 2014 tax or 110% of your 2013 tax. There's no penalty if the tax shown on the return (after reduction for withholding tax paid) is less than $1,000.

What you can do

✓ Time income

If it's economically feasible, consider asking your employer to postpone paying your year-end bonus or a late-year commission until after year-end. By delaying income, you delay taxes on that income.

Alternatively, if you suspect your marginal tax rate will be higher in 2015 than in 2014, you may come out ahead by accelerating income into 2014. See if you can receive a bonus or commission payment in 2014, rather than in 2015. Or, if you're retired (and over age 59½), consider taking money that you plan to use for 2015 expenses out of your traditional IRA before year-end.

✓ Increase retirement plan contributions

Increasing the pretax amount you are contributing to your 401(k) or other workplace retirement savings plan before year-end will reduce the amount of salary you have to pay income taxes on in 2014. Your plan may allow you to make additional catch-up contributions if you've reached age 50 and have maximized your regular salary deferrals.

✓ Protect your Social Security benefits

Worried about paying income taxes on your Social Security? Instead of taking more money from your traditional IRA this year, consider tapping into your Roth IRA if you have one. Tax-free Roth IRA distributions are not included in your income for purposes of determining whether Social Security benefits are taxable.

About your filing status, tax rate, and personal exemptions

You need to know your filing status to determine your highest marginal tax bracket and whether you're eligible to claim certain deductions and credits.

Four filing statuses. The filing statuses are single, married filing jointly, married filing separately, and head of household. A qualifying widow(er) with a dependent child may continue to use the joint return rates for two years after his or her spouse's death.

Personal exemptions worth $3,950 each. You generally can claim one personal exemption for yourself and one for your spouse if you're married and file a joint return. You're also allowed one exemption for each dependent (a qualifying child or qualifying relative who meets certain tests). In 2014, each exemption you can claim reduces your taxable income by as much as $3,950. However, personal exemptions are phased out for higher income taxpayers. The AGI phaseout ranges are between:

- $254,200 and $376,700 for single taxpayers,
- $279,650 and $402,150 for those filing head of household,
- $305,050 and $427,550 for married taxpayers filing jointly, and
- $152,525 and $213,775 for married taxpayers filing separately.

Graduated tax rate schedules. You can see the 2014 tax brackets in the accompanying rate table. Because the tax rate schedules are graduated, you generally won't pay the same rate of tax on all of your income. Once you know your tax bracket, you can project the tax effect of various planning strategies.

2014 Tax Rates

Taxable income brackets

Rate (%)	*Single*	*Head of household*	*Married filing jointly (and surviving spouses)*	*Married filing separately*
10	$0 – 9,075	$0 – 12,950	$0 – 18,150	$0 – 9,075
15	$9,076 – 36,900	$12,951 – 49,400	$18,151 – 73,800	$9,076 – 36,900
25	$36,901 – 89,350	$49,401 – 127,550	$73,801 – 148,850	$36,901 – 74,425
28	$89,351 – 186,350	$127,551 – 206,600	$148,851 – 226,850	$74,426 – 113,425
33	$186,351 – 405,100	$206,601 – 405,100	$226,851 – 405,100	$113,426 – 202,550
35	$405,101 – 406,750	$405,101 – 432,200	$405,101 – 457,600	$202,551 – 228,800
39.6	Over $406,750	Over $432,200	Over $457,600	Over $228,800
Additional Medicare tax on wages and self-employment earnings				
0.9	Over $200,000	Over $200,000	Over $250,000	Over $125,000
Modified AGI thresholds for investment income surcharge				
3.8	Over $200,000	Over $200,000	Over $250,000	Over $125,000

About your investment income

Some of your investment income may be taxed differently than your ordinary income. Knowing how your investment income is taxed can help you secure more favorable tax treatment.

Lower rates for certain capital gains and dividends. As you can see in the table, long-term capital gains and qualified dividends are taxed at lower rates than short-term gains, nonqualified dividends, and ordinary income. Planning for investment gains and dividends may reduce your tax bill significantly.

- For gains to be considered long term, investments generally have to be held *more than one year* before sale.
- Most dividend income from domestic corporations and qualified foreign corporations qualifies for a lower rate if the underlying stock has been held for a specified period — generally, for more than 60 days during the 121-day period beginning 60 days before the stock's ex-dividend date. (The ex-dividend date is the date on which the stock began trading without rights to the most recently declared dividend.)

Capital Gain/Dividend Rates

Long-term gain and qualified dividends

20%	**Most investments (if ordinary tax rate is 39.6%)**
15%	**Most investments (if ordinary tax rate is 25% to 35%)**
0%	**Most investments (if ordinary tax rate is 10% or 15%)**
28%	**Collectibles gain**
25%	**Real estate gain (amount up to prior allowable depreciation; rest of gain is taxed the same as gain on most investments)**

Short-term gain and nonqualified dividends

As high as 39.6%	**Taxed at ordinary income-tax rates**

Certain higher income taxpayers are also subject to the additional 3.8% net investment income tax.

What you can do

Plan for gains

If you're planning to sell appreciated securities before year-end, you might try to hold off selling them until you've passed that critical 12-month mark. You'll secure more favorable long-term capital gain tax treatment on the sale. While you need to consider more than taxes when planning investment transactions, waiting to sell an appreciated investment until you've met the long-term holding period could save you taxes.

Manage losses

If you want to accelerate capital losses to offset capital gains without significantly changing your investment position, consider selling the securities with a loss and replacing them with the securities of another company in the same industry having similar prospects. Similarly, you could "double up" on the securities, wait 31 days, and then sell your original securities at a loss.

Either strategy avoids the wash-sale rules. Under those rules, if you sell securities at a loss and purchase substantially identical securities within 30 days before or after the sale, your loss will be disallowed. Pay attention to any dividend payments during the wash-sale period. If you reinvest the dividends in additional shares, you may lose your ability to deduct part of your original loss.

Capital loss considerations. Capital losses are fully deductible against capital gains. You can also deduct any excess losses against ordinary income of up to $3,000 ($1,500 if married filing separately) and carry forward losses you can't deduct in 2014 to future years.

If you have significant capital gains in 2014, it might make sense to realize some offsetting losses on investments you no longer want to own. Just be sure to weigh all relevant factors before you make a decision.

3.8% surcharge on net investment income. Your investment income may also be subject to a 3.8% surcharge. The surcharge applies to the lesser of (1) the year's net investment income or (2) the excess of your modified AGI over the relevant threshold for your filing status (see page 6).

For example, a single taxpayer has a modified AGI of $250,000 in 2014 and $40,000 of net investment income. Since $40,000 is less than $50,000 ($250,000 modified AGI - $200,000 threshold), the taxpayer's liability for the 3.8% tax is $1,520 (3.8% × $40,000).

For surcharge purposes, net investment income can include income from interest, dividends, annuities, royalties, rents, net capital gain, and income earned from passive trade or business activities.

About the alternative minimum tax

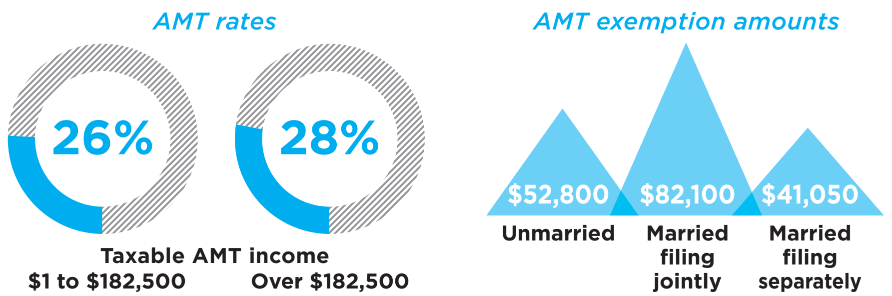
Now that the alternative minimum tax (AMT) exemption amounts are indexed for inflation, fewer taxpayers may be subject to the tax. But it's still an important tax planning consideration.

Basically, the AMT system is designed to ensure that taxpayers pay a minimum amount of tax when they use certain tax breaks to reduce their regular tax liability. The AMT calculation is complex. If your AMT is higher than your regular tax, you pay the additional amount on top of your regular tax. The AMT rates are 26% and 28%.

For planning purposes, it may be helpful to identify some of the items that can trigger AMT:

- A large deduction for state income taxes
- The exercise of incentive stock options
- A higher-than-average number of dependency exemptions
- Interest from certain "private activity" municipal bonds
- A large capital gain

2014 AMT Rates and Exemption Amounts



The exemptions are phased out for higher income taxpayers and subject to annual inflation adjustment.

About projecting itemized deductions

Another step in planning your taxes is to project your itemized deductions. Every tax deduction you can claim will help reduce your tax liability. To estimate the tax benefit of a deduction, multiply the amount of the deductible expense by your marginal tax rate (the rate that applies to your last dollar of taxable income).

Itemized deduction limitation. Your itemized deductions may be limited if your AGI is greater than $254,200 (single), $305,050 (married filing jointly), $279,650 (head of household), or $152,525 (married filing separately). Basically, deductions are reduced by 3% of the amount by which AGI exceeds the threshold. However, deductions for medical expenses, investment interest, nonbusiness casualty and theft losses, and gambling losses are not subject to the limitation. And you can't lose more than 80% of the itemized deductions affected.

Estimate Your Itemized Deductions

Medical and dental expenses (in excess of 10% of your AGI/7.5% if you're age 65+)	$ ____________
State, local, and foreign taxes you paid	$ ____________
Home mortgage interest	$ ____________
Investment interest	$ ____________
Gifts to charity	$ ____________
Casualty and theft losses	$ ____________
Job expenses and certain miscellaneous expenses (in excess of 2% of your AGI)	$ ____________
Total expenses	$ ____________
Multiply by your marginal tax rate	× ____________%
Potential tax savings*	$ ____________

** Note that for higher income taxpayers, some itemized deductions and their potential tax savings may be limited.*

What you can do

✓ Look at mutual fund ex-dividend dates before you buy

If you invest in a mutual fund shortly before its late-year ex-dividend date, you'll find that the most recently declared dividend will be credited and taxable to you this year. In effect, part of your investment will be returned to you immediately as taxable income. Consider delaying your purchase until after the ex-dividend date.

✓ Reduce exposure to the 3.8% surcharge

Structuring a late-year sale of appreciated property as an installment sale gives you the opportunity to spread your gain — and the taxes on that gain — over more than one tax year. (The installment sale method isn't available to dealers and can't be used for sales of publicly traded securities or for certain sales to related parties.)

Consider investing in tax-exempt municipal bonds, since the bond interest is not included in net investment income for surtax purposes.

By increasing your participation in a passive activity, such as a partnership in which you do not materially participate, you may be able to convert passive income, which is potentially subject to the surtax, into active income.

✓ Minimize AMT

You may want to put off exercising incentive stock options or recognizing a large taxable capital gain on the sale of investment property in 2014 if those actions would trigger an AMT liability.

Expenses subject to "floor" amounts. Certain itemized deductions are subject to "floor" amounts set by law. Only amounts over and above the floor are deductible. Looking at your deductible expenses now may save you from an unpleasant surprise at tax time. Deductions subject to floors include medical expenses, which are deductible only to the extent they exceed 10% of your AGI — 7.5% if you're age 65 or older. Unreimbursed employee business expenses and miscellaneous expenses are deductible only to the extent that, together, they exceed 2% of AGI.

Deductible taxes. You can claim deductions for state and local income taxes, real property taxes, and personal property taxes, as well as foreign income and real property taxes. Instead of deducting foreign income taxes, you may be able to claim the foreign tax credit.

Home mortgage interest. One of the advantages of home ownership is the ability to deduct mortgage interest payments. You may deduct qualified residence interest on *acquisition indebtedness* and *home equity indebtedness* (within limits). So, when making large purchases, such as a new car, you may want to consider using a home equity line of credit. That way, you'd potentially be able to deduct your loan interest.

Generally, you may also:

- Deduct mortgage "points" (prepaid interest) in full in the year you purchase or build your main home.
- Choose to spread out the deduction of purchase points over the life of the loan if, for example, you won't have enough deductible expenses to itemize deductions in 2014.
- Deduct in full, in the year you enter the loan, points paid on mortgage loans for home improvements.
- Deduct any points you pay to refinance an existing mortgage ratably over the life of the loan. If the refinancing is for home improvements, points paid from separate funds are currently deductible.

Investment interest. This expense is a deduction that's easy to miss. You may deduct interest you pay in 2014 on funds borrowed to buy or carry taxable investments. Interest on a margin loan is an example. Your deduction is limited to your net investment income for the year, with any excess interest expense you can't deduct currently carried forward to subsequent years, subject to that year's limitation.

Charitable gifts. There's still time to make deductible charitable donations. A check mailed on December 31, 2014, can be counted as a 2014 contribution even though the organization doesn't receive the contribution and the check doesn't clear the bank until 2015. The same is true for a contribution charged to a credit card as late as December 31, 2014, even though you don't pay the charge until 2015.

About tax credits

While deductions lower taxable income, credits actually offset income tax, dollar for dollar. In 2014, you may be able to claim:

- A child tax credit of up to $1,000 for each qualifying child who is under age 17. (Income limitations apply.)
- The household and dependent care credit if you pay child care expenses so you (and your spouse) can work. Your child must be under age 13. Up to $3,000 in expenses ($6,000 for two or more children) can qualify for the credit, and the minimum credit rate is 20%.
- Credits for higher education expenses (see table).
- An adoption tax credit for up to $13,190 in qualified adoption expenses. (Income limitations apply.)

Tuition Breaks for 2014

	Maximum credit	*Qualifying education*	*Income limits*
American Opportunity Credit	**$2,500** per student	First four years of undergraduate education	No credit if modified AGI reaches $90,000 (unmarried) or $180,000 (married joint); phaseout applies
Lifetime Learning Credit	**$2,000** per tax return	Undergraduate, graduate, job training courses	No credit if modified AGI reaches $64,000 (unmarried) or $129,000 (married joint); phaseout applies

Note: You may not claim both credits in the same year for the same student's expenses. Other restrictions apply.

What you can do

Bunch deductions

One way to deduct more of your medical and miscellaneous expenses is to "bunch" two years of expenses into one year so you exceed the applicable deduction floor.

- Consider scheduling and paying for elective surgery, dental work, and eye appointments in 2014 if it would put you over the 10%- (or 7.5%)-of-AGI deduction threshold in 2014.
- Paying 2015 professional dues, subscriptions, and investment management fees in late 2014 could help you surpass the 2%-of-AGI threshold and gain a deduction for a portion of your miscellaneous expenses.

Maximize other deductions

You could increase your itemized deduction for taxes by making any January 2015 estimated state or local income-tax payment in 2014 or by having your employer withhold more state or local income tax from your last few paychecks to cover your anticipated tax liability. However, these strategies may not be appropriate if they would cause an AMT problem for you in 2014.

Instead of making a cash contribution to charity, consider donating appreciated securities that you've held for more than one year. You generally may claim a charitable deduction equal to the full fair market value of the donated securities (subject to certain limitations and restrictions). And you avoid the capital gains tax that would apply if you sold the securities first and then donated the proceeds.

Business Taxes

Another set of considerations

To plan your business income taxes, you also need to project your 2014 income and look for ways to minimize taxes on that income. But you have some additional considerations.

Your form of business

The structure of your business determines how your business income is taxed. For example, if your business is a regular C corporation, it has to pay tax on its income at corporate tax rates. (See table.) With certain exceptions, a corporation that has an S election in place doesn't pay federal corporate income taxes. Instead, S corporation income, losses, deductions, and credits "pass through" to the owners to be reported on their individual tax returns.

Like a corporation, a limited liability company (LLC) generally provides owners with protection from personal liability for business debts and obligations. But most LLC owners can choose to have their businesses treated as partnerships for income-tax purposes. Like an S corporation, a partnership's income, losses, deductions, and credits pass through to the owners. Sole proprietors also report income and deductions on their personal returns.

Thus, S corporation, LLC, partnership, and sole proprietor income generally is taxed only once — to the shareholders or owners. Regular C corporation income is taxed twice — once to the corporation and again to the shareholders when it is paid out as dividends.

Your tax accounting method

The accounting method you use determines when your business must recognize income for tax purposes and when expenses can be deducted. Cash-method taxpayers report income when it's received or within their control ("constructively received"). They generally deduct expenses when payments are disbursed.

Accrual-method taxpayers report income in the year their right to it becomes fixed and the amount can be determined with reasonable accuracy. Deductions are taken when all events have occurred creating the liability and the amounts can be determined with reasonable accuracy.

Your company's accumulated earnings

The IRS can assess a 20% accumulated earnings tax penalty on corporations that accumulate excessive earnings and profits. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty.

Corporate Tax Rates

If your company is a C corporation other than a personal service corporation,* you can estimate your corporation's 2014 federal income taxes using this table.

If taxable income is over	*But not over*	*Your tax is*	*Of the amount over*
$0	$50,000	15%	$0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	$100,000	$13,750 + 34%	$75,000
$100,000	$335,000	$22,250 + 39%	$100,000
$335,000	$10,000,000	$113,900 + 34%	$335,000
$10,000,000	$15,000,000	$3,400,000 + 35%	$10,000,000
$15,000,000	$18,333,333	$5,150,000 + 38%	$15,000,000
$18,333,333		a flat 35%	

* ***Qualified personal service corporations pay a flat 35% tax.***

Your self-employment taxes

Self-employed individuals generally have to pay self-employment (SE) taxes — the counterpart of the Social Security and Medicare (FICA) taxes paid by employees and their employers. If you're self-employed, SE taxes can represent a significant expense.

In 2014, the 12.4% Social Security part of the tax applies to self-employment earnings of up to $117,000. The 2.9% Medicare tax applies to all of your self-employment income. Plus, you'll owe an additional 0.9% Medicare tax on earnings over $200,000 ($250,000 of combined self-employment income on a joint return; $125,000 if married filing separately).

Self-employed individuals can deduct half of their SE taxes (other than the additional 0.9% Medicare tax) as an above-the-line deduction. By claiming the deduction, you reduce your AGI, which in turn may help free up other deductions and credits that are limited or eliminated at higher AGI levels.

Your firm's exposure to alternative minimum tax

Larger corporations may find themselves subject to alternative minimum taxes. When it applies, the corporate AMT rate is 20%, and the exemption amount is $40,000 (subject to an income-based phaseout with alternative minimum taxable income between $150,000 and $310,000).

Small corporations that meet a gross receipts test are exempt from AMT. To qualify, your corporation's average annual gross receipts for all three-tax-year periods beginning after 1993 and ending before the current tax year generally can't exceed $7.5 million. (There's a lower $5 million threshold for the first three-tax-year period taken into account in the test.)

What you can do

✓ Plan earnings distributions

If your closely held C corporation expects to have a profitable year, consider whether it makes business (as well as tax) sense to pay bonuses or make a tax-deductible profit sharing contribution this year to reduce corporate income.

Does your corporation have a reasonable business purpose — the anticipated purchase of new equipment or the purchase or construction of new facilities, for example — for accumulating earnings greater than the $250,000/$150,000 threshold that may trigger the accumulated earnings tax penalty? If so, be sure to document in the corporate minutes the reason the additional money is being retained.

✓ Reduce self-employment taxes

Certain strategies may help reduce your SE tax burden. To start, make sure trade or business expenses are properly classified as such. For example, professional fees should be claimed as a business expense to the extent they're business related.

Consider hiring your school-age child to work for you part-time. Provided the pay rate is reasonable, you may deduct the amount you pay your child for work actually performed as a business expense. The deduction would lower your self-employment income — and your SE taxes. No Social Security or Medicare tax would be due on your child's earnings, assuming your child is under age 18 and your business is not incorporated.

Your business losses (if any)

You're certainly not in business to generate losses. However, if you do incur a loss, be sure to use it to lower your taxes. Check this list of possible loss deductions:

- Business bad debts
- Casualty and theft losses (including natural disaster losses)
- Capital losses
- Losses on the sale of business assets
- Net operating losses

A net operating loss (NOL) is generated when your business's deductions for the tax year are more than its income. NOLs generally may be carried back two years. Doing so may secure your business a refund of income taxes paid for those years. Unused NOLs may be carried forward to offset future taxable income for as long as 20 years. A special election not to use the carryback period is also available.

Your asset purchases

Being able to recover some of the costs of newly acquired business assets over time through depreciation is an important tax benefit for businesses. *When* you purchased assets and *how* you choose to depreciate them can make a difference in your tax bill.

Regular "MACRS" depreciation. Generally, a business may claim a full half-year's depreciation deduction for equipment and various other assets purchased and placed in service late in the year. But be mindful of an exception: You can't use the half-year depreciation convention if more than 40% of the year's total asset additions are made during the last three

MACRS Depreciation Asset Classes

3-year
- Tractor units for over-the-road use

5-year
- Automobiles, trucks, computers and peripheral equipment

7-year
- Office furniture and fixtures, farm machinery and equipment

10-year
- Vessels, barges, tugs

15-year
- Certain land improvements

20-year
- Farm buildings (other than certain single-purpose structures)

27.5-year
- Residential rental property — apartment buildings, single-family rental properties

39-year
- Nonresidential real property — office buildings, stores, warehouses

The lists of property included in each class aren't all-inclusive.

months of the year. Instead, you must treat all the assets as though you acquired them in the middle of the appropriate quarter.

Section 179 "expensing." Under Section 179 of the tax code, your business may be able to currently deduct ("expense") the cost of qualifying new or used assets. For 2014, the Section 179 expensing limit is $25,000 (a considerable drop from the 2013 limit of $500,000). The amount of the available expensing election is reduced dollar for dollar as annual asset purchases rise from $200,000 to $225,000. You can't expense more than the amount of your taxable income from active trades or businesses. Any part of an asset's cost that is expensed can't also be depreciated.

Your other deductible business expenses

An easy way to lower your business's taxable income is to increase deductions. So take care to include all available deductible expenses in your projection.

Domestic production activities. Subject to certain limits, businesses involved in domestic manufacturing, construction, engineering, or architectural activities may qualify for a deduction of up to 9% of their "qualified production activities income" for the tax year. If your business is eligible, the deduction could reduce your taxes — and increase your after-tax profits — without any additional outlay of cash.

Business start-up expenses. Are you a new business owner? You may have incurred expenses launching your business this year. Examples of expenses you may pay before your business actually begins operating include the cost of:

- Conducting market surveys
- Traveling to find customers or suppliers
- Advertising
- Training employees

You may elect to deduct up to $5,000 of these expenses in 2014 as long as the business is up and running by year-end. The $5,000 limit is reduced dollar for dollar once total start-up costs exceed $50,000. The remainder of your start-up costs can be deducted ratably over a 180-month period.

Employee benefit costs. As an employer, you can lower your business taxes — and help accumulate funds for your own retirement — by maximizing contributions to tax-favored retirement plans. Check out the table on page 16 for the 2014 contribution and deduction limits.

Using a tax-favored cafeteria plan to offer benefits could be advantageous for you and your employees. The plan can offer health insurance only, or it can offer other benefits as well, such as medical expense reimbursement, group-term life insurance of up to $50,000, and dependent care reimbursement, among others.

If you're self-employed, you can deduct 100% of health insurance costs paid for yourself, your spouse, your dependents, and your children younger than 27 at year-end. The deduction can't be for more than your earned income from the trade or business for which you established the health coverage. (Other requirements apply.) Since you claim the deduction as an adjustment to gross income, rather than as an itemized deduction, it may help you qualify for other tax benefits that are subject to AGI-based limits.

What you can do

✓ Make the most of "expensing"

Think about purchasing equipment (with a loan, if necessary) if you'll be able to claim the Section 179 deduction for the equipment in 2014.

If you plan to make the expensing election but find that your total asset purchases are already close to the $25,000 limit, you may want to postpone buying additional items until 2015.

If you'll elect Section 179 treatment for only some of your business's 2014 asset acquisitions and depreciate the others, it may make sense to use the election for the assets with the longest depreciation periods.

✓ Accelerate deductions

Look at having equipment or vehicle repairs done or purchasing supplies before year-end if these expenses would be incurred in 2015 anyway. Note that the IRS has issued new guidelines clarifying the difference between an immediately deductible *repair* and an *improvement*, which must generally be capitalized and deducted over several years.

If you're an accrual-method taxpayer, you have a little more freedom to accelerate deductions. Look at deducting employee bonuses that you don't plan to pay until early next year (within the first 2½ months of 2015). But note that you generally can't use this strategy for employees who own a greater-than-50% interest in the business, and other restrictions may apply.

Comparing Retrieval Plans

	401(k)	*Profit sharing*	*Simplified employee pension (SEP)*	*SIMPLE IRA*
Employee contributions allowed?	Yes — see page 3 for 2014 deferral limits	No	No (except for certain plans established before 1997)	Yes — see page 3 for 2014 deferral limits
Employer contribution required?	No — however, employer contributions are allowed	Yes — contributions can be discretionary	Yes — discretionary contributions	Yes — must match employee deferrals up to 3% of pay or contribute 2% of pay for all eligible employees
Maximum annual contribution	Smaller of $52,000 or 100% of participant's compensation	Same as 401(k)	Smaller of $52,000 or 25% of participant's compensation	Employee deferrals plus required employer contribution
Maximum deduction	25% of all participants' compensation plus employee deferrals	25% of all participants' compensation	Same as profit sharing plan	Same as maximum contribution

Qualifying compensation is generally limited to $260,000 in 2014. Calculating the contribution limit for a self-employed individual's profit sharing contribution involves a special computation. SIMPLE IRAs are available only to small employers.

Your credit-eligible expenses

Make sure you account for any business expenses that can qualify for a tax credit.

Business tax credit. Many business credits fall under the general business credit. Some that may be available to you:

- Investment credit
- Disabled access credit
- FICA tip credit
- Small employer pension start-up credit
- Employer-provided child care credit
- Energy credits
- Small employer health insurance credit

Small employer health insurance credit. If your business offers employee health benefits, see if you can qualify for a tax credit for a portion of your cost. For 2014, eligible small businesses that purchase coverage through a SHOP Marketplace may qualify for a credit of up to 50% of their contribution toward the coverage. Various requirements apply.

Time is of the essence

Starting your year-end planning now will give you more time to put strategies in place to achieve your tax-saving objectives. As skilled professionals, we have the knowledge and experience to assist you with all of your planning needs — both now and in the future.

For more information about any of our services, please contact us.

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