

Client Update

BERKSON
Asset Management

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Adjust your tax and financial course for 2015

Were you less than satisfied with your financial situation at the end of 2014? If so, making tax-smart decisions in 2015 could provide a helpful course correction.

Here are some suggestions to get you started on the right path.

■ Get structured

That out-of-control feeling from last year might be due to a lack of organization. Set up a simple filing system to arrange your tax papers and records. Once you're organized, review your monthly expenses and establish a budget you can live with. Online tools can help make that job much easier, or you can give us a call. We'll be happy to help.

Next, take your planning a step further and create an emergency fund. Consider setting aside six months of living expenses in an account you can tap easily.

■ Be strategic

Examine your investment portfolio for potential tax savings, such as selling stocks that are worth less than you paid to offset your capital gains. You might also donate appreciated stock that you have held for more than one year to charity and avoid capital gains altogether. With the new tax on unearned income to watch out for, consider buying invest-

ments that pay tax-free income, such as municipal bonds.

■ Look again

Some everyday tax moves deserve a second look. Review your employer's list of benefits to make sure you are making the most of them, including the lesser-known perks, if available, such as flexible spending accounts, commuting reimbursements, and employer-paid college expenses. If you have a qualified high-deductible health insurance plan, consider the benefits of a health savings account.

This is also a good time to analyze your tax withholdings and estimates for 2015. Changes to your job, marital status or dependents, a new home, or a serious health issue – all of these life events can affect your tax situation. Adjustments now can put extra money in your pocket when you need it most.

■ Go long

In addition to strategies that yield immediate benefits, think about your long-term finances. Take full advantage of your employer's retirement matching program. Consider contributing the maximum allowed by law, especially if

you are nearing retirement age. In 2015, you can contribute up to \$18,000 to your 401(k) plan, plus a \$6,000 catch-up contribution if you're age 50 or over.

Consider the myRA (my Retirement Account), a new retirement option for 2015. While these accounts are not designed to replace other retirement plans, the benefits may make opening a myRA a smart idea. For example, the account charges no fees, is guaranteed not to lose value, and can be established with as little as \$25.

Are you ready to think really long term? Review your will and estate plan. Even though the current high-dollar exclusions may shield you from the estate tax, there are still good reasons for you to have a solid plan in place.

If looking back at 2014 leaves you thinking you should have managed things better, take steps now to get your tax and financial plan back on track. ♦



Tax “extenders” are extended again for 2014

Congress and President Obama agreed on a bill to extend some fifty tax breaks known collectively as the “extenders.” President Obama signed the *Tax Increase*

Prevention Act of 2014 on December 19, 2014. The tax breaks are extended only through December 31, 2014. Congress is expected to consider further extension in 2015.

Here are some of the tax breaks extended by the 2014 law. Keep in mind they apply only to your 2014 tax return; they expired again after December 31, 2014.

- The new law retained for 2014 the optional deduction for state and local sales taxes in lieu of deducting state and local income taxes. This is especially beneficial for residents of states with no income tax.
- The maximum \$500,000 Section 179 deduction for qualified business property, which was scheduled to drop to \$25,000, is preserved for

2014. The deduction is phased out above a \$2 million threshold, up from \$200,000.

- 50% bonus depreciation for qualified business property is revived for 2014. The deduction may be claimed in conjunction with Section 179.
- You may be able to claim a tuition-and-fees deduction of up to \$4,000 for qualified higher education expenses. The amount of the deduction is linked to adjusted gross income.
- An individual aged 70½ or older could make a 2014 transfer of up to \$100,000

tax-free from an IRA to a charity. The transfer counts as a required minimum distribution (RMD).

- For 2014, homeowners can exclude tax on mortgage debt cancellation or forgiveness of up to \$2 million. This tax break is only available for a principal residence.



- The new law preserves bigger tax benefits in 2014 for mass transit passes. Employees could receive up to \$250 per month tax-free as opposed to only \$130 per month.

- A taxpayer is generally entitled to a 2014 tax credit of 10% of the cost of energy-saving improvements installed in the home, with a lifetime limit of \$500.

- Educators can deduct up to \$250 of their 2014 out-of-pocket expenses for classroom supplies. This deduction is claimed “above the line” so it is available to non-itemizers.

The remaining extenders range from enhanced deductions for donating land for conservation purposes to tax credits for research expenses and hiring veterans.

Starting in 2015, the law authorizes tax-free accounts for disabled individuals who use the money for qualified expenses like housing, transportation, and education. Also, greater investment flexibility is allowed for Section 529 accounts used to pay for college. ♦

Mark Your Calendar

MARCH

- 16** – Deadline for calendar-year corporations to elect S corporation status for 2015.
- 16** – Deadline for filing 2014 tax returns for calendar-year corporations.
- 31** – Deadline for payers who file electronically to file 2014 information returns (such as 1099s) with the IRS.
- 31** – Deadline for employers who file electronically to send copies of 2014 W-2s to the Social Security Administration.

APRIL

- 15** – Deadline for filing 2014 individual tax returns.
- 15** – Deadline for filing 2014 partnership returns.
- 15** – Deadline for filing 2014 gift tax returns.
- 15** – Deadline for making 2014 IRA contributions.
- 15** – First installment of 2015 individual estimated tax is due.

MAY

- 15** – Deadline for nonprofit organizations on a calendar-year to file information returns. ♦

2015 Tax Numbers

Adjustments for inflation are made to various tax numbers each year, and tax laws with phase-in and phase-out provisions cause some numbers to change annually. The numbers for 2014 in the chart below apply to your 2014 returns, and the numbers for 2015 should be used in your 2015 tax planning.

	2015	2014
Standard deduction		
• Single	\$ 6,300	\$ 6,200
• Joint returns and surviving spouses	\$12,600	\$12,400
• Married filing separately	\$ 6,300	\$ 6,200
• Head of household	\$ 9,250	\$ 9,100
• Additional for elderly or blind (married)	\$ 1,250	\$ 1,200
• Additional for elderly or blind (single)	\$ 1,550	\$ 1,550
Personal exemption	\$ 4,000	\$ 3,950
“Kiddie tax” threshold	\$ 2,100	\$ 2,000
“Nanny tax” threshold	\$ 1,900	\$ 1,900
Social security tax wage base	\$118,500	\$117,000
Medicare tax wage base	No limit	No limit
Social security earnings limit		
• Below full retirement age	\$15,720	\$15,480
• Full retirement age	No limit	No limit
Maximum retirement plan contributions		
• IRA for those under age 50	\$ 5,500	\$ 5,500
• IRA for those 50 and over	\$ 6,500	\$ 6,500
• SIMPLE plan for those under age 50	\$12,500	\$12,000
• SIMPLE plan for those 50 and over	\$15,500	\$14,500
• 401(k) plan for those under age 50	\$18,000	\$17,500
• 401(k) plan for those 50 and over	\$24,000	\$23,000
Starting income (AGI) phase-out for personal exemption and itemized deductions		
• Single	\$258,250	\$254,200
• Joint returns and surviving spouses	\$309,900	\$305,050
• Married filing separately	\$154,950	\$152,525
• Head of household	\$284,050	\$279,650
Health savings account contribution limit		
• Individual	\$3,350	\$3,300
• Family	\$6,650	\$6,550
• Additional for 55 & older	\$1,000	\$1,000
Automobile standard mileage rate		
• Business	57.5¢	56¢
• Medical/moving expense	23¢	23.5¢
• Charitable work	14¢	14¢
Estate tax top rate	40%	40%
Estate tax exclusion	\$5,430,000	\$5,340,000
Annual gift tax exclusion (per donee)	\$14,000	\$14,000
Alternative minimum tax exemption		
• Single	\$53,600	\$52,800
• Married, joint	\$83,400	\$82,100
• Married, separate	\$41,700	\$41,050
Section 179 deduction limit	\$25,000*	\$500,000
Section 179 purchase limit	\$200,000*	\$2,000,000

*Legislation may change these limits again.

Postpone taxes by exchanging property

The tax law provides a valuable tax-saving opportunity to business owners and real estate investors who want to sell property and acquire similar property at about the same time. This tax break is known as a like-kind or tax-deferred exchange. By following certain rules, you can postpone some or all of the tax that would otherwise be due when you sell property at a gain.

A like-kind exchange simply involves swapping assets that are similar in nature. For example, you can trade an old business vehicle for a new one, or you can swap land for a strip mall. However, you can't swap your vehicle for an apartment building because the properties are not similar. Certain types of assets don't qualify for a tax-deferred exchange, including inventory, accounts receivable, stocks and bonds, and your personal residence.

Typically, an equal swap is rare; some amount of cash or debt must change hands between two parties to complete an exchange. Cash or other dissimilar property received in an exchange may be taxable.

It is not necessary for the exchange of properties to be simultaneous. However, in the case of such a “deferred” exchange, the replacement property must be specifically identified in writing within 45 days and must be received within 180 days (or by your tax return due date, if earlier), after transfer of the exchange property.

With a real estate exchange, it is unusual to find two parties whose properties are suitable to each other. This isn't a problem because the rules allow for three-party exchanges. Three-party exchanges require the use of an intermediary. The intermediary coordinates the paperwork and holds your sale proceeds until you find a replacement property. Then he forwards the money to your closing agent to complete the exchange.

When done properly, exchanges let you trade up in value without owing tax on a sale. There's no limit on the number of times you can exchange property. If you would like to learn more about tax-deferred exchanges, contact us. ♦



Wealth is just a matter of time

By implementing sound principles of saving and investing, average people – with average salaries and

expenses – can build wealth. For most people, building wealth may be a lot like cooking stew in a crock pot. Two ingredients are required: discipline and time.

- ***Time harnesses the power of compound interest.*** Simply put, compound interest is the money gained by leaving your dollars invested. It's interest earned on the interest. Say, for example, you put \$1,000 in an investment earning 5% annually. After the first year, your account balance will have grown to \$1,050. Leave your money invested, and by the end of the following year you'll have \$1,102.50. You make more money the second year because you also earn interest (\$2.50) on the first year's interest (\$50).

- ***The sooner you start investing, the less you'll need to save.*** Take, for example, two fellows named Tom and Jerry. Both are 18 years old. Tom paid attention in accounting class and started saving \$100 a month. For ten years he contributed to a relatively conservative mutual fund that earned 7% annually.

At age 28, Tom lost motivation and stopped saving.

Jerry, on the other hand, was a party animal. For the first ten years after high school, he spent every penny he earned. But at age 28, he got discipline. He started saving \$100 each month, the same amount Tom had been saving for ten years.

Tom saved \$100 a month for ten years and Jerry saved the same monthly amount for 37 years. Why did Tom end up with more money?

By age 65, who comes out ahead? Tom is the clear winner with about \$230,000; Jerry places second with \$210,000. Consider that Tom saved \$100 a month for ten years (\$12,000) and Jerry saved the same monthly amount for 37 years (\$44,400). Why did Tom end up with more money? Because his funds were invested longer. The power of compounding amplified his investment. (By the way, had Tom invested \$250 a month from age 18 to 65, he'd have over a million dollars by age 65.) ♦

CLIENT UPDATE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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Time matters in your business too

The “time value of money” is a critical concept in handling personal finances. The same basic premise should be applied in making decisions for your business.

Here's how it works: Typically, the money you currently have in your hands is worth more than it would be years from now. That's because you're able to spend or invest the funds now instead of waiting to receive them. In other words, there's an “opportunity cost” attached to any delay.

For example, let's say that you're entitled to a \$100 payment. If you receive the \$100 now and you're able to invest it at a 5% annual interest rate, you'll have \$105 after one year. Assuming you don't need the money for expenses, it will be worth \$110.25 after two years, and so on. This amount is known as the “future value” of the money.

Similarly, you can compute the “present value” of money. Suppose you won't receive the \$100 payment until one year from now. The value of the money must be discounted due to the opportunity cost. Using the same 5% interest rate, the present value of the \$100 you'll receive a year from now is \$95.24 (\$100 value divided by 1.05).

It's easy to see how this concept can affect your business. Accelerating payments from customers will enable you to better meet your current obligations and provide reserves for investment. On the other hand, delays hamper cash flow, and reduce the opportunity for investment. Computing the time value of money may also encourage you to lease, rather than buy, assets.

At the very least, the time value of money should be factored into business decisions. For help in running the numbers and analyzing the results, give us a call. ♦