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Hi Everyone,

So far summer has been a lot less like last year than we could have imagined. Hopefully it is allowing you to get out and enjoy time with family and friends.

As always, it's a great time to review your goals, plans, and portfolio. Please don't hesitate to call if I can help with any questions you might have on your financial situation or changes that have taken place. Thank you!

Steve

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Information to chew on...

Top 10 Tax Breaks You'll Miss in 2014

You probably didn't notice, but when the clock struck midnight on December 31, 2013, a number of popular tax benefits, commonly included in the list of provisions referred to as "tax extenders" expired. While it's possible that Congress could retroactively extend some or all of these items, you'll have to evaluate your 2014 tax situation based on the fact that they're no longer available.

1. Qualified charitable distributions

For the past few years, a qualified charitable distribution (QCD) of up to $100,000 could be made from an IRA directly to a qualified charity if you were age 70½ or older. Such distributions were excluded from income *and* counted toward satisfying any required minimum distribution (RMD) that you would otherwise have had to take from your IRA for that tax year. QCDs aren't an option for 2014, however.

2. Qualified small business stock exclusion

For qualified small business stock issued and acquired after September 27, 2010, 100% of the capital gain resulting from a sale or exchange could be excluded from income, provided certain requirements, including a five-year holding period, are met. For qualified small business stock issued and acquired after 2013, however, the amount that can be excluded from income drops to 50%.

3. Deduction for higher education expenses

The above-the-line deduction for qualifying tuition and related expenses that you pay for yourself, your spouse, or a dependent is not available for 2014.

4. Classroom educator expense deduction

The above-the-line deduction for up to $250 of unreimbursed out-of-pocket classroom expenses paid by qualified education professionals also expired at the end of 2013.

5. State and local sales tax deduction

If you itemize deductions for the 2014 tax year, you won't have the option of claiming a deduction for state and local sales tax in lieu of the deduction for state and local income tax.

6. Depreciation and expense limits

The maximum amount that can be expensed under Internal Revenue Code Section 179 drops significantly from its 2013 level of $500,000 to $25,000 for 2014. The special 50% "bonus" first year additional depreciation deduction has also ended.

7. Mortgage insurance premiums

Starting in 2014, individuals who itemize deductions will no longer have the ability to treat premiums paid for qualified mortgage insurance as deductible interest on IRS Form 1040, Schedule A.

8. Employer-provided commuter expenses

For 2013, you could exclude from income up to $245 per month in transit benefits (e.g., transit passes) and $245 per month in parking benefits. For 2014, the monthly limit for qualified parking increases to $250, but the monthly limit for transit benefits drops to $130.

9. Energy efficient home improvements and property

The nonbusiness energy property credit offset some of the costs associated with the installation of energy efficient qualified home improvements (e.g., insulation, windows) and qualified residential energy property (e.g., water heater, central air). Specific qualifications and limits applied, and an overall lifetime cap of $500 was in effect for 2013. The credit is not available at all in 2014.

10. Discharge of debt on principal residence

Since 2007, individuals have generally been allowed to exclude from income amounts resulting from the forgiveness of debt on their principal residence. This provision expired at the end of 2013.

Some Things to Consider about Gifts to Children

If you have property that would produce a loss if sold, you should consider selling the property, claiming the loss, and transferring the proceeds to the child, rather than transferring the property to the child who would not be able to claim the loss.

If you make significant gifts to your children or someone else's children, or if someone else makes gifts to your children, there are a number of things for you to consider.

Transfers that are not taxable gifts

There are a variety of ways for you to make transfers to children that are not treated as taxable gifts for gift tax purposes. Filing a gift tax return is generally required if you make gifts (other than qualified transfers) totaling more than $14,000 to an individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. This may provide a large umbrella for parents of minor children, college-age children, boomerang children, and special needs children.
- **Annual exclusion gifts.** You can generally make gifts of up to $14,000 per child gift tax free each year. If you split gifts with your spouse, the amount is effectively increased to $28,000. In the case of a gift to a qualified tuition program (529 plan) for a child, the annual exclusion can be effectively increased to five times the above amounts (i.e., to $70,000, or $140,000 if you split gifts with your spouse).
- **Qualified transfers for medical expenses.** You can make unlimited gifts for medical care gift tax free, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition gift tax free, provided the gift is made directly to the educational provider.

The same exceptions for transfers that are not taxable gifts generally apply for purposes of the generation-skipping transfer (GST) tax. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income tax issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount. For 2014, this amount is $2,000 (the first $1,000 is tax free and the next $1,000 is taxed at the child's rate). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support. If the child's income would be taxed at the parents' high tax rates, it may make sense to invest in ways that can produce nontaxable income (e.g., tax-exempt bonds) or defer taxation (e.g., Series EE bonds) until after the kiddie tax period.
- **Basis.** When you make a gift, the person receiving the gift generally takes an income tax basis equal to your basis in the gift. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over your basis in the gift immediately before the gift). The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Gifts to minors

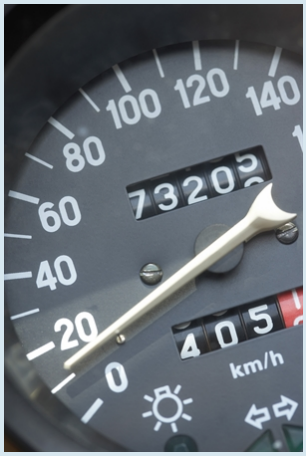
Outright gifts should generally be avoided for any significant gifts to minors. In that case, you may wish to consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian holds the property for the benefit of the minor, generally until an age (often 21) specified by state statute. Generally, any adult or trust company can be the custodian, but check state law.
- **Trust for minor.** A Section 2503(c) trust is a trust specifically designed to obtain the gift tax annual exclusion for gifts to a minor. Principal and income can be distributed to the minor before age 21, but there is no requirement of any distribution to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21.

Consult a tax professional for more information about your specific situation.

Charitable Gifts of Items You No Longer Need

Consult a tax professional and visit the IRS website for more information.



If you have used clothing, household goods, or a car that you no longer need, you may be able to do good by contributing the property to charity while obtaining an income tax deduction for your charitable contribution. Subject to certain limitations, the amount of your charitable contribution is usually the fair market value (the price that property would sell for on the open market) of the property at the time of the contribution.

Used clothing and household goods

You generally cannot take a deduction for donations of used clothing or household goods unless the property is in good used condition or better. However, you can take a deduction for used clothing or household goods that are not in good used condition or better if the claimed value is greater than $500 and you include a qualified appraisal with your tax return.

The value of used clothing or household goods is usually far less than what you paid for the property. A good indication of the value of used clothing is the price that a buyer would pay in used clothing stores, such as consignment or thrift stores. Used household goods may have little or no value because of their worn condition, or because they are out of style or no longer useful.

Used cars

The value of a used car can usually be determined using a used car pricing guide for a private party sale. The price listed should be for a car of the same make, model, and year, and with similar options and accessories. Adjustments may be needed for wear and tear, and mileage.

However, your deduction for a donated car may be limited to the amount for which the charity then sells the car. This rule applies if the claimed value for the car is over $500 unless: (1) the charity makes a significant intervening use of or material improvement to the car before selling it; or (2) the charity gives the vehicle, or sells it for well below fair market value, to a needy individual to further the organization's charitable purpose.

You must attach Copy B of Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, (or other statement from the charity containing the same information) to your tax return. Form 1098-C shows the gross proceeds the charity received if the charity sold the car and whether either of the two exceptions for cars valued at more than $500 applies.

If the charity sells the car for $500 or less (and neither of the two exceptions applies), your deduction is generally limited to the lesser of $500 or the car's fair market value on the date of the contribution.

Other requirements

A receipt is generally required from the charity for all noncash gifts. However, a receipt may not be required where it is impractical to get one (e.g., leaving clothing at a charity's unattended drop site).

A written statement is required from the charity acknowledging all noncash gifts above $250. The acknowledgment must generally include a description and good faith estimate of the value of any goods or services (if any) you received in return for your contribution. Your charitable contribution deduction is reduced if you receive something in return for your contribution.

An appraisal is generally needed when you donate an item or group of items of property if the claimed value is more than $5,000. You must also complete Section B of Form 8283 and attach it to your tax return. Section B of Form 8283 should be signed by both the appraiser and a responsible officer of the charity. However, you do not need an appraisal for the donation of a car if the deduction is limited to the gross proceeds of its sale by the charity.

Limits on deductions

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI) (or 30% or 20% of AGI depending on the type of charity and the property donated). Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. If you donate property with a fair market value that is more than your income tax basis in it (not usually a concern when donating used goods), your deduction is generally limited to your basis in the property, except for capital gain property when you use the 30% of AGI limit.

The total of your charitable contribution deductions and certain other itemized deductions is limited (but not reduced by more than 80%) if your adjusted gross income in 2014 is more than $254,200 (for single taxpayers, $305,050 for married filing jointly taxpayers).

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Is there a new one-rollover-per-year rule for IRAs?

Yes--starting in 2015.

The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous 12 months. The long-standing position of the IRS, reflected in Publication 590 and proposed regulations, was that this rule applied separately to each IRA you own.

Using an IRS example, assume you have two traditional IRAs, IRA-1 and IRA-2. You take a distribution from IRA-1 and within 60 days roll it over into your new traditional IRA-3. Under the old rule, you could not make another tax-free 60-day rollover from IRA-1 (or IRA-3) within one year from the date of your distribution. But you could still make a tax-free rollover from IRA-2 to any other traditional IRA.

Recently a taxpayer, Mr. Bobrow, did just what the example above seemed to allow, taking a distribution from IRA-1 and repaying it back to IRA-1 within 60 days, and then taking a distribution from IRA-2 and repaying it back to IRA-2 within 60 days. Unfortunately for the taxpayer, the IRS decided this was no longer the correct interpretation, and told Mr. Bobrow that his transactions violated the one-rollover-per-year rule. The case made its way to the Tax Court, which agreed with the IRS and held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

Not surprisingly, the IRS has announced that it will follow the Bobrow case beginning in 2015 (more technically, the new rule will not apply to any rollover that involves a distribution occurring before January 1, 2015). For the rest of 2014 the "old" one-rollover-per-year rule in IRS Publication 590 (see above) will apply to any IRA distributions you receive. But keep in mind that you can make unlimited direct transfers (as opposed to 60-day rollovers) between IRAs--these aren't subject to the one-rollover-per-year rule. So if you don't have a need to actually use the cash for some period of time, it's generally safer to use the direct transfer approach and avoid this potential problem altogether.

(Note: The one-rollover-per-year rule also applies--separately--to your Roth IRAs.)