Certified Public Accountants

Gatto McFerson

December 20, 2014

Dear Friends and Colleagues,

Congress has finally passed an eleventh-hour Tax Extenders Bill, a package of 55 tax breaks for businesses and individuals that will cost approximately $45 billion. These various tax breaks had technically expired on December 31, 2013, but the bill retroactively "extends" these provisions one additional year, through December 31, 2014.

There are several items in the Tax Extenders Bill that will benefit individuals. The deductibility of state general sales taxes in lieu of state income taxes is one provision that will be welcomed back, as will certain deductions from gross income for qualified tuition and related expenses.

The most welcome items in this "extender bill", at least for small businesses, will be the reinstatement of the higher Section 179 expense.

Section 179 is the ability for business owners to deduct a maximum of $500,000 in new equipment in the year of purchase, as opposed to depreciating this equipment over its useful life, typically 5-10 years. Section 179 is an excellent tax planning tool, allowing business owners to purchase a large piece of equipment, finance it with only a minor cash outlay, yet deduct the entire purchase price in the year of acquisition.

Important Tip: Capital equipment leases are eligible for the 179 deduction. Also, simply signing the paperwork before year-end isn't enough to qualify for the deduction. The piece of equipment must be in the veterinary practice and operational by the end of December to meet the Section 179 rules.

There are several other areas that you should be aware of heading towards the end of the year.

Health Care Deductions will be few and far between this year. The amount of deductible medical expenses in most cases must exceed 10% of your adjusted gross income. This means that only taxpayers with substantial out-of-pocket medical expenses will qualify for this deduction.

Important Tip: Medical expenses are deductible when paid. If you have substantial medical expenses, look to see if you will exceed the 10% adjusted gross income threshold, and if not, try to pay them in the following year.

528 Arizona Ave, Suite 201 Santa Monica, CA 90401
310-393-2434 Fax: 310-393-8777
www.gattomcferson.com
info@gattomcferson.com

Charitable Deductions of any amount must now have a receipt. Any individual contributions of over $250 must also have an acknowledgement letter from the charity, and should state that no goods or services were received in return for the contribution.

Important Tip: If you have possible donations to make, look at your income and determine if the donation will be a more valuable deduction in 2014 or 2015, and then write the check accordingly.

Gift Exclusion for 2014 will remain at $14,000. This means that the amount you may give to one person in one year without having any tax return filings required is $14,000.

Important Tip: Join forces. A husband and wife can give a total of $28,000 to any individual without filing requirements.

Ordinary Income Tax Rates that we've grown accustomed to (10%, 15%, 25%, 28%, 33%, and 35%) have remained in place. However, a new top rate of 39.6% was added last year. This new rate applies to taxable income of over $450,000 for joint taxpayers, and $400,000 for those filing single.

Ordinary income tax rates are the rates that get applied to your taxable income, excluding long-term capital gains and qualified dividends.

There has been some confusion on whether or not these tax rates are "all or nothing." In other words, once your taxable income crosses that magic $450,000 threshold, will all of your income be taxed at the higher rate?

The answer is no. Only the portion above the $450,000 threshold will be taxed at the higher rates.

As an example, if you're filing joint and your taxable income is $490,000, only the extra $40,000 will be taxed at the highest 39.6% rate.

Important Tip: Analyze what bracket you're likely to fall into in 2014, then determine if accelerating or delaying income and/or expenses is a strategic move.

Long-Term Capital Gain and Qualified Dividend Rates will remain at 15% for all but those in the top income tax bracket ($450,000 joint, $400,000 single). For those upper-income taxpayers, a 20% rate will apply.

Long-term capital gains are generated by the sale of an investment (such as a mutual fund), or the sale of a business or piece of real estate. Qualified dividends are typically dividends paid out by a mutual fund or a publically traded stock.

Important Tip: Again, analyze what brackets you're likely to fall into in 2014, then determine if recognizing a capital gain should be done prior to the end of the year.

Two new Medicare taxes originated with the recent health care legislation. One is a Medicare Tax on wages and self-employment income. An additional 0.90% Medicare tax will be charged on higher income taxpayers ($200,000 or above in wages or self-employment income for individuals, $250,000 or above in wages or self-employment income for married taxpayers).

Important Tip: Income received via a K-1 from an S-Corporation is not subject to this 0.90% tax.

The second is a Medicare Tax on Investment Income. This new tax of 3.80% will be applied against net investment income for higher income taxpayers. (Adjusted Gross Income of $200,000 or above for individuals, $250,000 or above for married taxpayers).

Net investment income has been written to include the following categories:

- Interest Income (Savings, Certificates of Deposits, Corporate Bonds)
- Dividend Income (Stocks, Mutual Funds, Money Market)
- Rents and Royalties
- Income from Passive Activities (rental properties, passive partnerships)
- Gains from the sale of investments (stocks, mutual funds)

Important Tip: Gains from the sale of a business are not subject to this tax. Gains from the sale of real estate are subject to this tax.

Unfortunately, an indecisive Congress has left most business owners with not much time for effective tax planning. Should you have any questions or comments, please feel free to contact our office.

Sincerely,

Gatto McFerson, CPAs, LLP

528 Arizona Ave, Suite 201 Santa Monica, CA 90401
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