Tax Tidbits

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Expired Tax Provisions - Again!

The last piece of legislation to make it through the 113th Congress in 2014 was the extension of 55 individual and business tax provisions that expired on December 31, 2013. These provisions were signed into law in early December 2014, only to expire weeks later on December 31, 2014. Of those expiring, 12 could affect our clients. Those provisions range from nonbusiness energy credits (energy efficient windows, doors, furnaces, etc.) to deductions for certain expenses of elementary and secondary schoolteachers, deductible premiums for mortgage insurance and the deduction for State and local general sales taxes to business deductions for expanded depreciation expense. One of the favorite provisions that expired in 2013 and 2014 was the tax-free distribution from individual retirement plans for charitable purposes. This tax provision allowed individuals over 70 years of age to contribute up to $100,000 to the charity of his/her choice. In other words, the taxpayer is using his/her money to fund a nondeductible charitable contribution without having to take the amount into income. This will satisfy the required minimum distribution obligation. Thanks to Congress, in 2014, unless you had a crystal ball, you had about 2-3 weeks to take advantage of this provision. As of December 31, 2014, the provision expired again. People that want to take advantage of this particular provision will have to wait for Congress to put it back into the law; otherwise, the IRA withdrawal will be taxable income. Once again, we are at the mercy of the actions of Congress. This inconsistency (as well as being inconsiderate) does not bode well when you are trying to "live right" tax-wise. Regardless of what Congress is doing or not doing, you need to start planning for next tax season.

Planning for 2015 tax year

You probably conclude that with a little bit of extra planning, you will save some hassle when it comes time to do it all again. You need to set up a system. You might prefer a high-tech financial management tool like digital vaults, smartphone apps and accounting software or "air-cooled" systems such as accordion folders, manual spreadsheets and a box. Keep your records safe. Put your 2014 tax return and supporting documents in a safe place. If you ever need your records, it will be easy for you to get them.

Stay organized. Make tax time easier. Put your tax records in the same place during the year. That way you will not have to search for misplaced records when you file next year.

Think about itemizing. If you claim a standard deduction on your tax return, you may be able to lower your taxes if you itemize deductions instead. A donation to charity could mean some tax savings.

Take action when life changes occur. Some life events can change the amount of tax you pay. Some examples include a change in marital status or the birth of a child. When they happen, you may need to change the amount of tax withheld from your pay. To do that, file a new Form W-4, Employee's Withholding Allowance Certificate, with your employer.

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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.

Can I Claim My Child This Year?

This is a question that is asked many times throughout the tax season. There are many scenarios from a child starting his/her first job and earning wages to a 30 year old child moving back into the home. You can claim a dependency exemption as long as the IRS's dependency tests are met. Each dependency exemption reduces your income subject to tax. The dependency exemption for 2015 is $4,000 per dependent.

In all situations, the IRS requires the following: You cannot claim a dependent on your tax return if you or your spouse, if filing jointly, can be claimed as a dependent by another taxpayer. The dependent must be a U.S. citizen, a U.S. resident alien, a U.S. national or a resident of Canada or Mexico. You cannot claim a married person who files a joint return as a dependent unless an exception applies.

In addition to the above, the child must meet the qualifying child tests. All tests must be met or the child will not be a qualifying child. The child must be your son, daughter, stepchild, foster child, brother, sister, half-brother, half-sister, stepbrother, stepsister or descendant of any of them. The child must be under 19 and younger than you or under 24, a full time student and younger than you. The child can be any age if the child is permanently and totally disabled or if your child is 24 or older and is not disabled, you may still be able to claim the dependency exemption; however, there are a different set of tests that have to be met.

To claim the dependency exemption for your child, the child must have lived with you for more than half of the year. There are some exceptions for temporary absences such as a child away at school. Your child is considered to live with you during that absence. The child must not have provided more than half of his/her own support for the year. Your child can have a paying job and still be claimed by you as long as he/she does not provide half the cost of his/her support. For example, your 16 year old son has a part-time job and makes $9,000 for the year and contributed that amount towards his support and you contribute $4,000 towards his support, then your son is not your qualifying child.

If the child meets the rules to be a qualifying child of more than one person, only one person can actually treat the child as a qualifying child. The dependent exemption cannot be split and there are tie breaker rules to determine who is eligible to take the dependent exemption. This usually occurs when the parents of the child are not married and live together. Another situation is when the taxpayer's child and grandchild live with the taxpayer. The grandchild could be a qualifying child of both the parent and grandparent.

If the individual does not meet the rules to be a qualifying child, as stated above, he/she would have to pass the tests for a qualifying relative to be a dependent on the tax return. The IRS defines a qualifying relative as anyone that is not your qualifying child. It does not have to be through marriage or a biological relationship. The individual cannot be your qualifying child or the qualifying child of any other taxpayer.

A qualifying relative must live with you the entire year, unless he/she is listed as a relative that does not have to live with you, such as a parent. You must provide more than half of the person's support. There are exceptions for children of divorced or separated children and multiple support agreements. The person's gross income must be less than $4,000 for 2015. For example, your 30 year old son lives with you all year and you provide 90% of his support and his gross income is $2,500. Assuming the other tests are met, he could be claimed as a dependent on your tax return.

This is an overview of the dependency rules as there is not a quick yes or no answer to the dependency question. Each taxpayer has his/her own unique situation and it can be difficult to determine if a child or relative will qualify as a dependent.

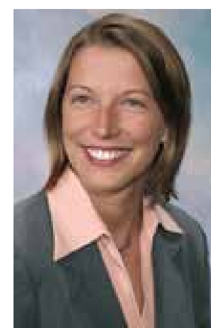
Elizabeth A. Zarnoch, EA
Tax and Accounting Manager

The Importance of an Annual Insurance Review

You know the importance of insurance protection and you certainly do not want to be without it when problems strike. What you may not realize is that insurance must change as your life and lifestyle change. A homeowner's policy that was written several years ago may not provide the adequate coverage you need as your family, belongings and living situations change.

You may ask yourself, do I need to contact my insurance agent immediately every time I buy a new piece of furniture or I upgrade my television? Not necessarily. Significant changes that should be reported immediately are listed below and you should ask yourself these questions every year:

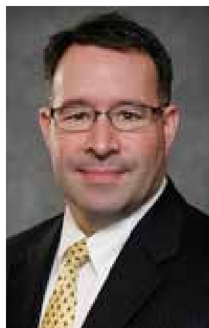
- Have I gotten married or divorced?
- Have I had a baby or adopted a child?
- Are there any new drivers in my household?
- Is anyone living with me who wasn't before?
- Do I have a personal umbrella policy? Do I need one?
- Have I purchased any new properties?
- Have I started a home based business?
- Have I purchased new furniture, electronics or fine jewelry?
- Have I made any renovations in excess of $5,000 to my home?



These are just a few examples of life changes that are often discussed at an annual insurance review. They are far from the only changes that can affect your coverage, so be thorough when documenting and reporting items to your agent.

*See **Insurance Review** on Page 4*

Giving Stock To Your Kids An Easy, Tax-Efficient Way



An easy, tax-smart way to transfer assets to your heirs is to give stock to them directly rather than selling the shares and giving them the cash. Because you no longer hold the stock, it's removed from your taxable estate and generally won't count as an asset for you for other financial purposes.

For 2015, you can use the annual gift tax exclusion to give away assets valued at up to $14,000 ($28,000 for joint gifts by a married couple) to a recipient without paying gift tax. (And you can make such gifts to as many people as you choose.) Give more than that to anyone in a particular year and you may be able to shelter the excess by using the unified estate and gift tax exclusion ($5.43 million for 2015).

For your child, income tax rules differ slightly depending on whether the stock would have produced a tax loss or a taxable gain if you had sold it;

- If the stock would have produced a tax loss, the child's basis is the stock's fair market value (FMV) when it's transferred.
- If the stock would have produced a taxable gain, (that is, the FMV is higher than your basis), the child uses your basis to calculate any future gain or loss.

On the other hand, depending on your situation, sometimes it may be better to sell the stock, claim a tax loss and then give the proceeds to your child.

Joesph M. Valicenti
President/CEO

Deductibility of Legal Expenses

We have all heard jokes involving lawyers. For example:

A man phones a lawyer and asks, "How much would you charge for just answering three simple questions?" The lawyer replies, "A thousand dollars." "A thousand dollars!" exclaims the man. "That's very expensive isn't it?" "It certainly is," says the lawyer. "Now, what's your third question?"

Seriously, lawyers help solve problems and chances are most individuals have issues that need to be resolved from time to time. Paying a lawyer to get your kids out of jail or going after the person who hit your car is not going to result in a tax deduction. Payments to lawyers for absolute personal legal expenses are not deductible. Any tax planning advice or advice on income producing property would be deductible. Tax advice rendered during the course of planning for divorce or to collect alimony would be deductible. Any divorce related attorney fees are not deductible. Additional deductible legal expenses include the cost of either doing or keeping a job, such as expenses paid to defend against criminal charges. The cost of collecting taxable alimony would be deductible. Legal costs associated with certain unlawful discrimination claims against the U.S. government and certain claims against the Social Security Administration are deductible. Qualifying attorney fees and court costs are deductible as follows:

1. As an adjustment to income up to the amount of the settlement or judgment included in income that year.
2. As an itemized deduction on Schedule A in the Miscellaneous Deduction section, subject to the 2% AGI floor.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Standard Mileage Rates For 2015

The Internal Revenue Service has issued the 2015 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2015, the standard mileage rates for the use of a car, van, pickup or panel truck will be:

- 57.5 cents per mile for business miles driven, up from 56 cents in 2014
- 23 cents per mile driven for medical or moving purposes, down .5 cents from 2014
- 14 cents per mile driven in service of charitable organizations

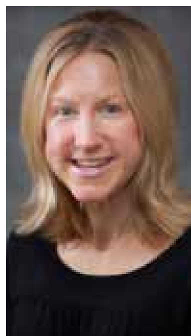
The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile including depreciation, insurance, repairs, tires, maintenance, gas and oil. The rate for medical and moving purposes is based on the variable costs such as gas and oil. The charitable rate is set by law.

Taxpayers always have the option of claiming deductions based on the actual costs of using a vehicle rather than the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after claiming accelerated depreciation including the Section 179 expense deduction on that vehicle. Likewise, the standard rate is not available to fleet owners (more than four vehicles used simultaneously).

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Retirement Plan Distributions



You cannot keep funds in a retirement account indefinitely. Generally you must begin withdrawing from your account once you reach age 70½. Roth IRAs are the exception as withdrawals are not required until after the death of the owner. On the other hand, if you make withdrawals from your retirement account before reaching age 59½, it is considered an "early distribution" and you may be subject to a 10% early withdrawal penalty. Retirement plan distributions can have significant tax consequences if not planned for properly. Here's what you need to know:

- Distributions from traditional IRAs and 401(k)s after a person turns 59½ are taxable at ordinary income rates. Depending on your other sources of income and your withholding, you may want to consider having taxes withheld from these distributions.
- Roth IRAs and Roth 401(k)s are funded with after-tax dollars and earnings grow tax-free. Distributions received after a person turns 59½ are generally not taxable. A person can withdraw his/her contributions at any time without tax or penalty. However, in order to withdraw earnings tax and penalty free you must not only be 59½, but your initial contributions must have been made to your Roth IRA five years before the date you withdraw funds.
- Early distributions from your retirement plan may be subject to the 10% early withdrawal penalty unless you meet one of the following exceptions:
    - You redeposit the money into another qualifying retirement plan, also known as a rollover, within 60 days from the date of the distribution. Note: the rules regarding rollovers are quite detailed so be sure to consult your investment or tax advisor if this situation applies to you.
    - You have unreimbursed medical expenses that are more than 10% of your AGI. If you or your spouse is over age 65, the threshold is 7.5%.
    - You use the withdrawal to pay for health insurance while you are unemployed.
    - You are totally and permanently disabled.
    - You receive the distribution in the form of an annuity. You must use an IRS-approved distribution method and you must take at least one distribution annually for this exception to apply.
    - Your distributions are used to pay qualified education expenses for you, your spouse, your children or grandchildren. You cannot use the expenses paid using a tax-favored account (such as a 529 or Coverdell savings plan) when figuring your qualified expenses for the purpose of this exception. Note: this exception only applies to early distributions from IRAs, not 401(k)s.
    - You use the distributions to buy a first home for yourself, your spouse, your child or your grandchild, your parents or other relatives. Total lifetime qualifying distributions are limited to $10,000.

In addition to the taxability of the retirement distribution itself, there can be other tax consequences of your distribution. For example, if you take a large distribution in any given year for a special purchase or other expense, the taxable amount of your social security may increase. A large distribution will also increase your adjusted gross income, which can affect everything from the taxability of your investment income to limitations on your itemized deductions. Depending on the size of the distribution, it may even bump you into a higher tax bracket. Consulting your investment or tax advisor prior to taking retirement plan distributions can help prevent unwanted sticker shock at tax time.

Kathleen O'Herron, CPA
Staff Accountant

This document was not intended or written to be used and it cannot be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

Insurance Review

(Continued from Page 2)

You may have been insured with the same company for years and feel that you have a policy that is "grandfathered." These policies are most often the contracts that should be reviewed as coverage options have only been enhanced over the years. Many of these contracts may be missing important coverages such as identity theft, sewer and water backup coverage, guaranteed replacement cost to name a few. Life Insurance Contracts should be reviewed to determine if beneficiary designations still follow the policyholder's wishes and if coverage remains adequate for your family needs.

Suzanne Valicenti, President/CEO
Valicenti Insurance Services, Inc.

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