

2014 YEAR-END TAX ISSUES & REMINDERS

Below are some key changes, reminders and updates as 2014 comes to an end. Please contact us if we can help with a particular question or provide planning assistance.

Individual Brackets: Individual tax rates range from 10% to 39.6%. The 39.6% bracket starts at \$406,750 for single individuals, \$457,600 for couples and \$11,950 for estates and trusts. Taxpayers in this bracket face a 20% rate on capital gains and qualifying dividends [instead of 15%]. There is no tax on capital gains and qualifying dividends for taxpayers with income less than \$36,900 (\$73,800 for couples).

Tax on Investment Income: Taxpayers with modified adjusted gross incomes over \$200,000 (\$250,000 for couples) pay an additional 3.8% tax on the lesser of their income over that threshold or their net investment income.

Tax on Earned Income: Individuals with wages or net self-employment income over \$200,000 (\$250,000 for couples) pay an additional .9% on compensation over the threshold.

Interest Deduction: Mortgage interest is deductible on total debt up to \$1 million to buy and improve your residence and a second home, plus interest on home equity debt up to \$100,000.

IRA Rollovers: Beginning January 1, 2015 taxpayer will be limited to one nontaxable IRA rollover within a one year period regardless of how many IRAs the taxpayer possesses. Trustee to Trustee rollovers are not subject to this limitation.

Consider making a nondeductible IRA contribution and then converting it to a Roth IRA. This strategy is allowed even if your income is too high to make Roth contributions directly. You will only pay taxes on the earnings when you convert; not on your contributions.

Charitable Giving: Consider consolidating your charitable giving through a donor advised fund. This will allow you to receive a charitable deduction in the current year and allocate your gifts later. The donor advised fund will vet the charity and simplify your record keeping.

Affordable Care Act (ACA): For all months in 2014, individuals must have health insurance, an exemption, or pay an additional tax. Taxpayers purchasing health insurance through the ACA marketplace may be eligible for a tax credit.

FAFSA: The IRS is anticipating a delayed start to the 2015 filing season. If you need federal financial aid forms, please let us know and provide your documents as early as possible.

Payments to Maids, Home Healthcare Providers, Babysitters, and Nannies: Payments exceeding \$1,900 per year to these types of workers are subject to payroll taxes. Form W-2 must be filed and given to employees due January 31st. Social security, Medicare and federal unemployment taxes are due with your income tax return; state unemployment taxes are due quarterly in MD and VA, and annually [by request] in DC.

DC, MARYLAND, AND VIRGINIA

DC Homestead Deduction and Senior Citizen Real Estate Tax Relief:

- (1) Both forms of tax relief apply only to primary residences, not rental properties.
- (2) The Senior Citizen Tax Relief applies if the 2014 household income is less than \$125,000.

*** For both programs, it is your responsibility to notify DC of any changes in eligibility.

DC Tax Reform: Beginning in 2015, tax rates drop from 8.5% to 7% for individuals with incomes between \$40,000 and \$60,000; and the franchise tax falls from 9.975% to 9.4%.

DC Residential Rentals: DC property owners who have a residential rental, including a partial rental of their home, are required to: (1) have a basic business license; (2) register the property with DC Consumer and Regulatory Affairs [DCRA]; and (3) meet the District's housing code compliance standards. You can apply for the license online at www.dcr.dc.gov/node/539512.

Montgomery County [MC] Residential Rentals: MC property owners who have a residential rental are required to: (1) obtain a rental license on a fiscal year basis [July 1 - June 30]; (2) pass a lead inspection if the property was built before 1950; and (3) designate a MD resident agent if the owner is a non-resident of MD. Units occupied by relatives, or in the cities of Rockville, Gaithersburg or Takoma Park are exempt. Additional information at: www.montgomerycountymd.gov/DHCA/housing/licensing.

Arlington County Residential Rentals: Those renting property in Arlington County must obtain a business license and pay the business license tax. Additional information at: www.taxes.arlingtonva.us/business/new-businesses.

ESTATE PLANNING

Estate and Gift Tax: For 2014, the exemption for assets held at death plus cumulative lifetime gifts [exceeding annual exclusions] is \$5,340,000. The annual gift exclusion is \$14,000 per donee. The DC estate exemption is \$1,000,000 [scheduled to increase to \$2,000,000 in 2016]. The MD exemption increases to \$1,500,000 on January 1, 2015 [increasing annually to match the federal exemption by 2019]. VA has no estate tax.

Neither DC nor MD requires a decedent's estate to add back taxable gifts made during one's life. For those wishing to assist children or grandchildren, gifts are an excellent state estate tax savings tool. For taxpayers with assets greater than their respective exemption amounts, planning using "marital", "disclaimer", and "irrevocable life insurance" trusts can also provide estate tax savings and flexibility.

Estate Documents: Review your estate planning documents every five years, whenever there is a change in law, or if you experience a major life event. Please set up an appointment to have your will, trust, and any other estate planning document drafted or reviewed.

HAPPY HOLIDAYS FROM ALL OF US AT ABRAMSON & ASSOCIATES, LLC .