Crow Shields Bailey PC
Reaching beyond the numbers.

Beyond the Numbers

A Crow Shields Bailey PC News Publication

Winter 2014

Crow Shields Bailey PC 25 Years of Service

CLIENT SPOTLIGHT

Evson, Inc.

Evson, Inc. is a family business owned by Rele Evans and his children, John & Sally. Together they carry on the legacy of Rele's father, real estate developer A. A. Evans, who in the 1940s built the D'Iberville Apartments on Springhill Avenue in Mobile. D'Iberville is a landmark 214-unit apartment complex that remains as popular today as ever, housing multitudes of Mobilians over the years. After D'Iberville, A.A. Evans went north and developed Park Lane Apartments and Mountain Brook Shopping Center on 27 acres of land in Mountain Brook Village.

Rele Evans and son John at Lane Parke development in Mountain Brook.

Rele joined his father in the business in 1980, and later his son John came on board as manager of the Mountain Brook properties. In the late 1990s the Evans family decided it was time to consider a renovation of the aging Mountain Brook property. They partnered with Birmingham-based Daniel Corp. developers, as well as Goodwyn Mills Cawood, Inc. for design and engineering and Hoar Construction as general contractors, to construct the new Lane Parke development.

The goal for Lane Parke from the start was to create a modern, upscale shopping and entertainment complex that matched the style and tradition of the city. In keeping with that goal, the completed project will include 130,000 square feet of retail space, new dining options, 276 luxury apartment homes, and a 100-room Kessler Collection hotel.

After many years of planning, the first phase of Lane Parke is now complete with three of the five buildings ready for leasing and the remaining two scheduled for completion by the end of December. Construction of the Grand Bohemian hotel has begun and it is projected to open next Spring. All tenants for the retail space are close to being signed up and construction of that phase will begin shortly thereafter.

Lane Parke has been a long and complicated process. The Evans family knew all too well that one option was to sell the 27 acres of prime Mountain Brook land and let someone else take on all the

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Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

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headaches of development. But with the property being in the family for so many years, they were determined to stay involved to insure that it was developed in a way that was right for the Mountain Brook community.

CSB has provided ongoing accounting services to the Evans family and their business for fifteen years, and we have enjoyed assisting them with the many tax and compliance issues involved in the Lane Parke project.

So we say congratulations on your success, both in Mobile and Mountain Brook, and may you have many more years of continuing prosperity!

A Flowerwood Nursery Camellia is blooming at the Mobile office

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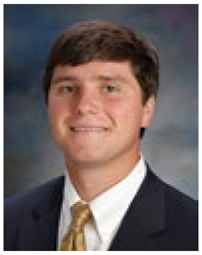
Team Member news



Lott Brigham

Congratulations to Lott Brigham, CPA for obtaining the Certified Valuation Analyst (CVA) designation. Lott joined CSB in October 2012 and is a Senior Accountant on our tax team.

Kenny Crow

Kenny Crow will serve as the 2015 Vice Chair of the Small Business Division for the Mobile Area Chamber of Commerce. Kenny is very passionate about our Chamber and its initiatives. He chaired the Chamber Chase campaign this year which exceeded its goal and he will continue to serve on the Executive Committee.

John Gafford

John Gafford is the newest member of the CSB tax team. John is a graduate of the University of South Alabama and is a member of the United States Air Force Reserves. He interned with us in the Spring and came on board full-time September 7.

Rian Turner

Rian Turner, CPA joined CSB in October as a Manager on our audit team. Rian has over ten years of experience in public accounting, specializing in audit. He is located in our Daphne office.

Hunter Young

Congratulations to Hunter Young for passing the CPA exam! Hunter joined CSB in January 2014 and is on our audit team.

CSB Events and Activities

Fall Festival at Brigham family farm.

Halloween pumpkin decorating contest.

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The Repair Regs

By Ryan Damrich

Like it or not, the final tangible property regulations (also known as "the repair regs") have arrived and are here to stay. These regulations will affect every taxpayer that uses tangible property in its business. The laws are effective for tax years that begin on or after January 1, 2014. Although complex, they seek to simplify the tax treatment of when expenditures are deductible and when they must be capitalized and depreciated. These expenditures include but are not limited to materials & supplies, repairs, restorations, adaptations, improvements, rotable & temporary spare parts, routine maintenance and the disposition of assets.

As complicated as the repair regs are, they do provide opportunities for taxpayers to generate more currently deductible expenditures than in years past. In order to comply with the regulations and take advantage of new deduction opportunities, each taxpayer must file one or more Forms 3115 to apply for a change in their accounting method(s). The IRS has communicated that they will be on the lookout for taxpayers who do not file these required forms by the due date of their 2014 tax returns. To help keep you in compliance, CSB will be preparing the required forms for all of our clients that must file. We may be contacting you soon for your help in the preparation of these forms.

CSB Events and Activities

Jenna with Chloe and Collen and Joey with Deuce at "Woofstock"

Hunter, Lott, Ryan and Nikki at University of Alabama fall recruiting event

Junior Achievement Bowling Classic 2014 – Ryan's team

Junior Achievement Bowling Classic 2014 – Nikki and Trey's teams

Kristi, Kenny, Gina & John at Chamber of Commerce Business Expo

Nikki & Jenna with Thanksgiving food drive donations.

2014 Year-End Income Tax Planning For Individuals

With the end of the year rapidly approaching, it's time to consider planning moves that could reduce your 2014 taxes. Year-end planning is particularly challenging this year because a host of popular ***individual tax breaks expired at the end of 2013.*** Congress has traditionally retroactively extended the vast majority of these temporary tax breaks after they expired. However, ***as we complete this letter,*** Congress has not yet extended these tax provisions. **Planning Alert!** Some are predicting that Congress may address these expired tax breaks in an "extender's bill" in its lame-duck session after the November elections. However, others believe Congress may not address these expired tax breaks until early 2015. We closely monitor Congressional tax legislation, so ***please call our firm*** if you need a ***status report.*** **Tax Tip!** Due to the uncertainty of the status of these expired tax provisions, we believe the best approach for year-end planning is to be ***prepared to act quickly near the end of 2014*** in case Congress retroactively restores these expired tax breaks. Consequently, the first segment of this letter highlights the expired individual tax breaks that could be retroactively extended.

Although the prospect of Congress extending these expired tax breaks beyond 2013 is uncertain, there are many *traditional* year-end tax planning strategies that can help lower your 2014 taxable income, and postpone the payment of your taxes to later years. Therefore, we are sending you this letter to remind you of these time-tested, year-end planning strategies. This letter also highlights *new* tax planning opportunities available to individuals because of recent law changes. **Tax Tip.** Many tax provisions impacting your 2014 income tax liability are affected by your adjusted gross income, modified adjusted gross income, or taxable income. We ***highlight prominently*** in this newsletter the various ***income thresholds, etc., affecting your tax liability.***

To help you locate items of interest, we have divided the planning ideas into the following topics:

- Selected Individual Tax Breaks That Expired After 2013
- Individuals Without Qualified Health Care Coverage May Face New Tax
- Certain Taxpayers May Qualify For A New "Refundable" Premium Tax Credit
- Recent Tax Increases Make Traditional Tax Planning Strategies More Valuable
- Postponing Taxable Income
- Taking Advantage Of Deductions
- Tax Planning For Investment Income (Including The 3.8% NIIT)
- Miscellaneous YearEnd Tax Planning Opportunities

Caution! Tax planning strategies suggested in this letter may subject you to the alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, the AMT can be triggered by taking large capital gains, having high levels of dividend income, or exercising incentive stock options. Therefore, ***we suggest that you call our firm before implementing any tax planning technique discussed in this letter.*** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. ***State income tax issues are not addressed.***

Selected individual tax breaks that expired after 2013

Selected Individual Tax Breaks That Expired *After 2013.* There is an ever-expanding list of temporary tax breaks that expire every few years. However, even though Congress often waits until the last minute, it has *historically* extended most of the more popular provisions. Unfortunately, Congress has yet to extend a host of tax breaks that ***expired at the end of 2013,*** including: School Teachers' Deduction (Up to $250) For Certain School Supplies; Deduction For State and Local Sales Taxes; Deduction (Up to $4,000) For Qualified Higher Education Expenses; Qualifying Taxfree Transfers Directly From IRAs To Charities For Those Who Are Age 70½ Or Older; Increased Charitable Deduction Limits For Qualifying Conservation Easements; $500 Credit For Qualified Energy-Efficient Home Improvements; Deduction For Qualified Home Mortgage Insurance Premiums; Income Exclusion For Principal Residence Mortgage Cancellations; and Temporary 100% Exclusion Of Gain From Sale Of "Qualified Small Business Stock." **Planning Alert!** If you are hoping to take advantage of any of these expired tax breaks for 2014, be ***prepared to act quickly near the end of 2014*** in case Congress passes an "extender's bill" late in the year. The following provides more details for several ***expired tax breaks*** that warrant special attention as extender's legislation works its way through Congress:

Tax-Free IRA Payments To Charities If You Are Age 70½ Or Older. For the past several years, we have had a popular rule that allows taxpayers, who have reached age 70½, to have their IRA trustee contribute up to $100,000 from their IRAs directly to a qualified charity, and ***exclude the IRA distribution from income.*** The IRA transfer to the charity also counts toward the IRA owner's "required minimum distributions" (RMDs) for the year. To qualify, the check from your IRA must be made out "directly" to your designated charity. In addition, if the contribution is $250 or more, you must get a timely, qualifying receipt from the charity for the charitable contribution. **Planning Alert!** Qualifying taxpayers have commonly used this temporary tax break as they plan for their year-end RMD. As we approach the end of 2014, please call us if you want a status report on this provision.

Credit For Energy-Efficient Improvements To Your Residence. The temporary 10% credit (with a life-time cap of $500) for qualified energy-efficient improvements to your "principal residence"

expired after 2013.* Planning Alert!** The current 30% credit for installing a ***qualifying solar water heater, solar electric generating property, geothermal heat pump, or ***small wind energy property*** is not ***currently scheduled to expire until after 2016.*** This 30% credit applies if you install the qualifying energy-efficient property in or on property located in the U.S. that you use as a residence. The residence does ***not*** have to be your ***"principal residence."*** So, installations for a second residence or vacation home may qualify. **Planning Alert!** To ***take the 30% credit for 2014,*** the property must ***actually be installed*** no later than ***December 31, 2014.***

Individuals without qualified health care coverage may face new tax

Background. As one of its key components, the Affordable Care Act (ACA) requires individuals to maintain qualified health care coverage, or pay a ***Shared Responsibility Tax ("SR Tax")*** with their individual income tax returns. ***Starting with the 2014 income tax return*** (e.g., Form 1040), individuals generally must pay an ***SR Tax*** if the individual or the individual's dependents are not covered by a ***"Qualified Health Plan"*** (i.e, a health plan or insurance policy providing "minimum essential coverage"). Consequently, to avoid the *SR Tax*, an individual (and anyone the individual ***may claim*** as a dependent) generally must either: **1)** Be covered under a ***"qualified health plan,"*** or **2)** Qualify for a specific ***"exemption"*** from the tax as discussed below. **Planning Alert!** The IRS also says that an individual cannot avoid the *SR Tax* for someone who he or she may claim as a dependent, simply by failing to claim that person as a dependent on the individual's tax return.

What Must Individuals Report On Their 2014 Individual Income Tax Return? The ***Shared Responsibility Tax (SR Tax)*** is computed on a monthly basis and, therefore, generally applies for each "month" an individual is not covered by a *qualified health plan*, and does not qualify for an *"exemption*." Beginning with the 2014 income tax return (e.g., Form 1040), if ***you,*** your ***spouse*** (if filing a joint return), and ***anyone*** you ***could claim*** as a dependent ***were all covered*** by a ***qualified health plan*** for ***every month*** of 2014, you will check a box on the 2014 income tax return, and you will not be subject to the *SR Tax*. Otherwise, you are generally required to File new Form 8965 with your 2014 return if you are claiming an exemption. Although the *SR Tax* is determined on a monthly basis, the ***maximum amount*** for the ***entire 2014 tax year*** is the ***greater of:*** **1)** ***$95*** per uninsured ***adult member*** of the household, plus ***$47.50*** per uninsured member of the household ***under age 18, not to exceed $285,*** or **2)** ***1% of household income in excess*** of the ***income threshold required for filing a Form 1040 return.*** However, the *SR Tax cannot exceed the national average premium for "bronze" level health insurance offered through the new government health insurance exchange ("Marketplace").*

What Constitutes A "Qualified Health Plan" (i.e., Minimum Essential Coverage)? A ***"Qualified Health Plan"*** is generally defined as any health plan or health insurance policy that provides the individual with "minimum essential coverage." The IRS website states that: *"The **vast majority of coverage** that people have today counts as **minimum essential coverage.***" [Emphasis added].

Thus, the vast majority of employer-sponsored plans, government plans (e.g., Medicare, Medicaid, etc.), insurance policies purchased on the individual insurance market, and insurance acquired through the new "Marketplaces" will qualify.

Who Is "Exempt" From The SR Tax? Certain individuals are generally ***exempt*** from the ***SR Tax,*** for example: **1)** Certain U.S. Citizens living abroad; **2)** Individuals with income below the threshold for filing an income tax return; **3)** Individuals who fail to have "qualified health plan coverage" for less than 3 months during a year; **4)** Individuals whose available health insurance is considered "unaffordable" because it would cost more than 8% of the individual's household income; and **5)** Individuals qualifying for a ***"hardship exemption."*** **Caution!** Some of these exemptions require an individual to first apply for (and obtain) an "exemption certificate" from the new government health insurance exchange, while others are simply claimed without an exemption certificate when the income tax return is filed. For instance, as discussed in the next segment, "hardship" exemptions generally require the taxpayer to first obtain an exemption certificate.

"Hardship" Exemptions. The Department Of Health & Human Services (HHS) has released a list of more than a dozen situations where individuals may qualify for a ***"Hardship" Exemption.*** For example, individuals may qualify for an exemption **if they:** **1)** Recently experienced domestic violence, **2)** Recently experienced the death of a close family member, **3)** Filed for bankruptcy in the last 6 months, **4)** Had medical expenses they couldn't pay in the last 24 months which resulted in substantial debt, **5)** Were determined ineligible for Medicaid because their state didn't expand eligibility for Medicaid under the Affordable Care Act, or **6)** Experienced another hardship in obtaining health insurance. **Please see the IRS website for a more complete listing of possible "hardship" exemptions.** ***Note!*** *Individuals generally must obtain an exemption certificate (discussed below) to utilize one of the above hardship exemptions.*

Obtaining A "Hardship Exemption" Certificate. If an individual seeking a "hardship" exemption must have an exemption certificate, the certificate is obtained by submitting a form entitled ***"Application for Exemption from the Shared Responsibility Payment for Individuals who Experience Hardships"*** to: Health Insurance Marketplace – Exemption Processing, 465 Industrial Blvd., London, KY 40741.This application form may be obtained on-line at www.HealthCare.gov. The application states: "We'll followup with you ***within 1–2 weeks*** and let you know if we need additional information. If you get this exemption, we'll give you an ***Exemption Certificate Number*** that you'll ***put on your federal income tax return."*** **Tax Tip.** If you think you or anyone in your household may qualify for one of these hardship exemptions, we suggest you begin the application process as soon as possible. If your application is approved, be sure to provide our firm with your exemption certificate.

Certain taxpayers may qualify for a new "refundable" premium tax credit

Background. ***Beginning in 2014,*** the ACA provides a tax credit (the ***"premium tax credit"*** or ***"PTC"***) for qualifying individuals who buy health insurance through the Marketplace. Generally, an individual qualifies for the PTC only if the individual's household income for 2014 is at least 100% and not more than 400% of the 2013 Federal Poverty Line – based on the individual's family size. The PTC is "refundable." This generally means that, to the extent the credit exceeds the taxes that you would otherwise owe with your individual income tax return without the credit, the IRS will actually send you a check for the excess. However, unlike the classic refundable credit which is paid directly to the taxpayer, the PTC is generally (but not always) paid ***in advance during the year directly to the insurer.*** These payments to the insurer are generally referred to as ***"Advance Payments"*** of the PTC. **Planning Alert!** It has been reported that a large majority of individuals who purchased health insurance during 2014 through the Marketplace opted for Advanced Payments of the PTC to be made to the insurer.

Individuals Must Reconcile Their "Advance Payments" Of The 2014 PTC With Their "Actual" PTC. For 2014, Advance Payments of the PTC were determined by the Marketplace based on an individual's ***"projected"*** 2014 household income. However, an individual is ultimately entitled to a PTC based on the individual's ***"actual"*** 2014 household income. Therefore, all individuals for whom Advance Payments were made for 2014 ***are required to file*** a ***2014 income tax return*** that reconciles: **1)** The amount of the ***"actual"*** PTC (based on ***"actual"*** 2014 household income), with **2)** The amount of the ***Advance Payments*** of the PTC (based on ***"projected"*** 2014 household income). If the individual's ***"actual"*** PTC for the 2014 taxable year ***exceeds*** the ***Advance Payments*** made to the insurance company, the excess will reduce the taxes otherwise shown on the individual's income tax return (e.g., Form 1040). To the extent the PTC exceeds the taxes shown on the return (before the credit), the IRS will send the individual a check for the excess. On the other hand, if the ***Advance Payments*** for the 2014 taxable year exceed the ***"actual"*** PAC (based on "actual" 2014 household income), the excess will be added to the individual's other taxes due with the return or reduce any refund. In this latter situation, there may be a cap on this "additional tax liability," depending on the taxpayer's household income for 2014.

IRS Releases New Forms For Computing, Reporting, And Reconciling The PTC. Any individual who purchased health insurance for 2014 through the Marketplace should receive a ***Form 1095-A*** ("Health Insurance Marketplace Statement") by January 31, 2015. The information on this form will be used to complete new ***Form 8962*** ("Premium Tax Credit") which reconciles the individual's Advanced Payments of the PTC with the "actual" PTC, as discussed above.

Recent tax increases make traditional tax planning strategies more valuable

Traditional year-end tax planning typically includes strategies that lower your current taxable income and postpone the payment of taxes to later years. The classic technique to accomplish both of these goals is to ***defer the recognition of taxable income*** to later years, and to ***accelerate deductible expenses*** into the current tax year. With every increase in tax rates, these strategies become even more valuable. And indeed, last year the ***American Tax Relief Act ("ATRA") of 2012*** ushered in a series of permanent tax increases for higher-income individuals, including: **1)** An **increased** ***top tax bracket of 39.6%*** (up from the previous 35%); **2)** A ***new .9% Additional Medicare Tax;*** and **3)** A ***new 3.8% tax*** on net investment income. As you evaluate the year-end tax planning strategies we discuss in this letter, be sure to consider the recent increase in tax rates discussed below. **Planning Alert!** The ***3.8% Net Investment Income*** **Tax** (discussed in the ***"Tax Planning For Investment Income"*** segment of this letter), and the .9% Additional Medicare Tax ***are in addition to*** the ***"statutory" tax rates*** discussed in this segment, and therefore increase an individual's effective marginal tax rates:

Highest Statutory "Ordinary" Income Tax Rate For Individuals is 39.6%. Last year, ATRA increased the highest statutory income tax rate to 39.6% (up from a top rate of 35%) for higher income individuals. ***For 2014,*** the 39.6% bracket applies to ***taxable income*** of an individual ***in excess of*** the following thresholds: ***$457,600*** for married couples ***filing joint returns*** ($228,800 if married filing separate returns); ***$406,750*** for ***single filers;*** and ***$432,200*** for ***heads of households.*** These income thresholds are adjusted for inflation after 2013.

Highest Statutory Long-Term Capital Gain And Qualified Dividend Rate Is 20%. Last year, ATRA increased the highest statutory rate for long-term capital gains and qualified dividends from 15% to 20% for higher-income individuals. The 20% rate applies only for long-term capital gains or qualified dividends that would otherwise be taxed in the 39.6% bracket. For example, to the extent long-term capital gains of a single individual cause his or her taxable income to exceed $406,750 in 2014 (i.e., the income threshold for the 39.6% bracket), the capital gains will be taxed at 20%. Individuals with taxable income (including long-term capital gains and qualified dividends) below the 39.6% income threshold continue to have a maximum capital gains rate of 15%. Lower-income individuals may actually have a long-term capital gains and qualified dividend tax ***rate of zero!*** The zero tax rate applies where the capital gain or dividend income would otherwise be taxed in the individual's 15% or 10% tax brackets (for 2014, taxable income up to $36,900 for single individuals and $73,800 for joint filers is taxed in the 15% bracket or below).

Postponing taxable income

Deferring income into 2015 is a good idea if you believe that your marginal tax rate for 2015 will be equal to or less than your 2014 marginal tax rate. In addition, deferring income into 2015 could increase various credits and deductions for 2014 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This tax planning strategy may generate unexpected tax benefits if, as many expect, Congress retroactively extends the income-sensitive tax breaks that expired at the end of 2013 (e.g., $4,000 qualified higher education expense deduction, deduction for home mortgage "insurance premiums").

Deferring Income Could Help You Avoid The Recent Tax Increases. Deferring taxable income from 2014 to 2015 may reduce your exposure to the recent tax increases if, for example: **1)** The deferral of income causes your 2014 taxable income to fall below the thresholds for the new 39.6% tax bracket (i.e., $457,600 for joint returns; $406,750 if single), or **2)** As discussed in more detail below, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral causes your 2014 modified adjusted gross income (MAGI) to fall below the thresholds for the new 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single). If, after considering these factors, you believe that deferring taxable income into 2015 will save you taxes, consider the following strategies:

- **Self-Employment Income.** If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2015. **Planning Alert!** If you have already received the check in 2014, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

- **Installment Sales.** If you plan to sell certain appreciated property in 2014, you might be able to defer the gain until later years by taking back a promissory note instead of cash. If you qualify for installment treatment, the gain will generally be prorated over the term of the note and is taxed to you as you collect the principal payments. This is called reporting your gain on the "installment method." **Planning Alert!** Although the sale of real estate and closely-held stock generally qualify for this deferral treatment, some sales do not. For example, even if you are a cash method taxpayer, you cannot use this gain deferral technique if you sell publicly-traded stock or securities. Also, you may not want to take back a promissory note in lieu of cash if you believe this reduces your chances of getting paid. **Tax Tip.** Since the "installment method" essentially allows you to spread a single gain over several years, this could cause the individual's income in the year of sale (and possibly subsequent years) to fall below the income thresholds that kick in the top 39.6% rate, or the top 20% capital gains rate. In addition this could also prevent your income from exceeding the thresholds for the 3.8% NIIT (discussed in more detail below).

Taking advantage of deductions

"Above-The-Line" Deductions Become Even More Important In Light Of Recent Tax Increases. So-called ***"above-the-line"*** deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while ***"itemized"*** deductions (i.e., below-the-line deductions) do ***not*** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) are particularly favorable because they not only reduce your taxable income, they also may free up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., itemized deductions, miscellaneous itemized deductions, personal exemptions, certain IRA contributions, certain education expense deductions and credits, adoption credit, etc.). In addition, "above-the-line" deductions could serve to reduce your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8% NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single).

- **"Above-The-Line" Deductions.** "Above-the-line" deductions include deductions for IRA or Health Savings Account (HSA) contributions, health insurance premiums for self-employed individuals, qualified student loan interest, qualified moving expenses, alimony, and business expenses for a self-employed individual. **Tax Tip.** Unreimbursed employee business expenses are classified as "miscellaneous itemized deductions" and trigger two potential limitations: **1)** Aggregate "miscellaneous itemized deductions" are allowed only to the extent they exceed 2% of your AGI, and **2)** Any excess is included in "itemized deductions" which are phased out once your AGI exceeds certain thresholds (e.g., for 2014 – $305,050 for joint returns; $254,200 if single). However, if you arrange for your employer to reimburse you for your "qualified" employee business expenses under an ***"accountable reimbursement plan,"*** the reimbursement is excluded from your income (which is generally the equivalent of an "above-the-line" deduction). **Note!** We can help you establish a qualifying accountable reimbursement plan with your employer.

- **Accelerating "Above-The-Line" Deductions.** As a cash method taxpayer, you can generally accelerate a 2015 deduction into 2014 by "paying" it in 2014. "Payment" typically occurs in 2014 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a third-party credit card (e.g., Visa, MasterCard, Discover, American Express) in 2014. **Caution!** If you postdate the check to 2015 or if your check is rejected, no payment has been made in 2014. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment are not deductible in 2014.

Accelerating "Itemized" Deductions Into 2014. As mentioned above, although ***"itemized"*** deductions (i.e., below-the-line deductions) do ***not*** reduce your AGI or MAGI, they still may provide valuable tax savings. ***Itemized deductions*** generally include charitable contributions, state and local income taxes, property taxes, medical expenses, unreimbursed employee travel expenses, home mortgage interest, and gambling losses (to the extent of gambling income). However, if your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years. **Tax Tip.** The easiest deductions to shift from 2015 to 2014 are charitable contributions, state and local taxes, and your January, 2015 home mortgage interest payment. For 2014, the standard deduction is $12,400 on a joint return and $6,200 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,200 if you're married ($1,550 if single). **Watch Out For AMT!** Certain itemized deductions are not allowed in computing your alternative minimum tax (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Before you accelerate 2015 itemized deductions into 2014, to be safe, we should calculate your taxes "with and without" accelerating the deduction so we can determine the AMT impact of this strategy.

Tax planning for investment income (including the 3.8% NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). As mentioned previously, the ***Affordable Care Act*** (ACA) imposes a new ***3.8% Net Investment Income Tax (3.8% NIIT)*** on net investment income of higher-income individuals. This tax applies to individuals with modified adjusted gross income (MAGI) exceeding the following ***"thresholds"*** (which are ***not indexed*** for future inflation): ***$250,000*** for ***married filing jointly; $200,000*** if ***single;*** and ***$125,000*** if ***married filing separately.*** The 3.8% NIIT is imposed upon ***the lesser of*** an individual's: **1)** Modified adjusted gross income (MAGI) in excess of the ***threshold,*** or **2)** Net investment income. ***Trusts and estates*** are also subject to the ***3.8% NIIT*** on the ***lesser of*****: 1)** The adjusted gross income of the trust or estate in excess of $12,150 (for 2014), or **2)** The undistributed net investment income of the trust or estate.

The NIIT generally applies to the traditional types of investment income, such as interest, dividends, annuities, royalties, and capital gains. However, the 3.8% NIIT also applies to "business" income that is taxed to a "passive" owner (as discussed in more detail below) unless the "passive" income is subject to S/E taxes. If you believe that the 3.8% NIIT may apply to you, consider the following planning techniques:

- **Roth IRAs (Including Roth IRA Conversions).** Tax-free distributions from a Roth IRA are exempt from the 3.8% NIIT, and do not increase your MAGI (and, thus will not increase your exposure to the 3.8% tax). Therefore, these tax-favored features should be factored into any analysis of whether you should contribute to a Roth IRA. However, if you are considering converting a traditional IRA into a Roth, the income triggered in the year of conversion would increase your MAGI and, therefore, may increase your exposure to the 3.8% NIIT on your net investment income. **Planning Alert!** If you want a Roth conversion to be ***effective for 2014,*** you must transfer the amount from the regular IRA to the Roth IRA ***no later than December 31, 2014*** (you do not have until the due date of your 2014 tax return). **Caution!** Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue, and this new 3.8% NIIT is just one of many factors that you should consider. ***Please call our firm*** if you need help in deciding whether to convert to a Roth IRA.
- **"Passive" Income.** "Net Investment Income" for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a "passive" owner (unless the income constitutes self-employment income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional "passive activity loss" rules. For example, under the passive activity loss rules, you may be a "passive" owner unless you spend more than 500 hours working in the business during the year or meet one of the other "material participation" test. Furthermore, subject to limited exceptions (e.g., qualified real estate professionals, rentals to a business in which you are not passive), rental income is generally deemed to be "passive" income under the passive activity loss rules, regardless of how many hours you work in the rental activity. If you believe you have "passive" income from an activity, please contact our firm. We will gladly evaluate your situation to determine whether there are steps you could take before the end of the year to avoid "passive" income classification, and thus, reduce your exposure to the 3.8% NIIT.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short- term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual who is taxed in the 39.6% ordinary income tax bracket paying tax on his or her ***net long-term capital gains*** at a ***23.8%*** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). This individual's ***net short-term capital gains*** could be taxed as high as ***43.4%*** (i.e., 39.6% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities are more important than ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the ***economics of a sale or exchange first!***

- **Planning With Zero Percent Tax Rate For Capital Gains And Dividends.** Longterm capital gains and qualified dividends that would be taxed (if ordinary income) in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. For 2014, taxable income up to $73,800 for joint returns ($36,900 if single) is taxed at the 15% rate, or below. **Tax Tip.** Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2014, may temporarily have income low enough to take advantage of the zero percent rate for 2014. If you are experiencing any of these situations, please call our firm and we will help you take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.
- **Making The Most Of Capital Losses.** If your stock sales to date have created a net capital loss exceeding $3,000, consider selling enough appreciated securities ***before the end of 2014*** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your net capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving

favorable long-term capital gain treatment for later years. **Planning Alert!** Your net short-term capital gains can be used to free up a deduction for any "investment interest" you have incurred (e.g., interest you have paid on your margin account). If you eliminate your short-term capital gains by recognizing your short-term capital losses, you may be restricting your ability to deduct your investment interest.

Miscellaneous year-end tax planning opportunities

Before wrapping up your traditional year-end planning review, here are several more strategies you might consider:

Consider Increasing Withholding If Facing An Estimated Tax Underpayment Penalty. If you have failed to pay sufficient estimated taxes during 2014 potentially causing an estimated tax underpayment penalty, ***increasing your withholdings before the end of 2014*** may solve the problem. Any income tax withholding (including withholdings at the end of 2014 from a year-end bonus or IRA distribution) is generally deemed paid 1/4 on April 15, 2014, June 16, 2014, September 15, 2014 and January 15, 2015. Therefore, amounts ***withheld on or before December 31, 2014*** may reduce or eliminate your penalty for underpaying estimated taxes. **Planning Alert!** If you take an IRA distribution and have taxes withheld from the distribution to avoid an underestimate penalty, you must roll the distribution (unreduced by the withheld taxes) into an IRA within 60 days of the distribution to avoid paying taxes (and possibly a 10% penalty) on the IRA distribution. Also, you are allowed to take a distribution from an IRA and roll it over into a new IRA, ***only one time per year*** (beginning with the date you received the distribution). Please call our firm before you initiate an IRA distribution in order to increase your tax withholdings.

Certain Estates Have Until December 31, 2014 To File "Late" Estate Tax Returns In Order To Make "Portability" Election. Over the years, gift and estate taxes have generally been imposed only on estates and aggregate lifetime gifts exceeding a certain dollar amount (the "exclusion amount"). For 2014, the lifetime estate and gift tax exclusion amount is $5.34 million, and will be adjusted annually based on inflation. For individuals ***dying after 2010,*** the executor of a deceased spouse's estate may elect for any of the "deceased spousal unused exclusion" (DSUE) amount to be added to the "exclusion amount" of the surviving spouse. This is sometimes referred to as the "portability election." **Caution!** To make the "portability" election, IRS says that the deceased spouse's estate ***must timely file a properly-completed estate tax return (Form 706).*** This filing is required even if the deceased spouse's estate is not large enough to otherwise require the filing of an estate tax return. An estate tax return generally must be filed ***within 9 months*** of a decedent's death, unless the estate timely obtains a 6-month filing extension. **Good News!** The IRS has announced that it ***will generally allow estates of individuals who died in 2011, 2012, or 2013*** (who were not otherwise required to file a Form 706) ***to file a "late" Form 706 to make the portability election,*** provided the ***return is filed before 2015.*** **Planning Alert!** If you think you or someone in your family may benefit from this time-sensitive relief, please call our firm for additional information.

Final comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this letter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of the provisions discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.

Tax Time Reminder

With the end of 2014 approaching, it's time to get a jump on collecting your tax information to maximize your year-end tax planning. For your convenience, CSB will mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2014 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

Mobile Office
(251) 343.1012
(800) 347.8583 Toll Free

Daphne Office
(251) 621.1106
(800) 347.8583 Toll Free

Gulf Shores Office
(251) 968.4337
(800) 347.8583 Toll Free

Tax Tidbits

F.I.C.A. wages and Self-Employment Earnings

The amount of wages subject to FICA tax at 6.2% (12.4% if self-employed) for 2015 is $118,500 (up from $117,000 in 2014). The FICA-Medicare Tax of 1.45% (2.9% if self-employed) continues to apply to all wages and self-employment income.

Additional Medicare Tax Withholding

There is an additional .9% medicare tax that employers must withhold on employee wages in excess of $200,000. There is no employer share.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal full retirement age. That limit for 2015 is $15,720. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit for 2014 was $15,480.

Standard Mileage Rates (Cents Per Mile)	
	2014
Business	56.0
Charitable	14.0
Medical	23.5
Moving	23.5

Retirement Plan Limits		
	2014	2015
IRA	$5,500	$5,500
IRA catch-up (age 50+)	1,000	1,000
SEP maximum contribution	52,000	53,000
401(k) 403(b) employee	17,500	18,000
401(k) 403(b) catch-up	5,500	6,000
Simple 408(p)(2)(E)	12,000	12,500
Simple 408(p)(2)(E) catch-up	2,500	3,000
Defined Contribution Limit	52,000	53,000
Annual Compensation Limit	260,000	265,000

Estate and Gift Tax Lifetime Exemption

2010	$5,000,000	(Or No Estate Tax if Elected)
2011	$5,000,000	(35% rate for amount over $5,000,000)
2012	$5,120,000	(35% rate for amount over $5,120,000)
2013	$5,250,000	(40% rate for amount over $5,250,000)
2014	$5,340,000	(40% rate for amount over $5,340,000)
2015	$5,430,000	(40% rate for amount over $5,430,000)

Gift Tax Annual Exclusion

The gift tax annual exclusion for 2015 will be **$14,000** per donee. There is no change from 2014. The exclusion is **$28,000** per donee for married couples that elect split gifting.

IRS Approved Per Diem Rates

As of 10/01/14 the "high" & "low" cost per diem allowances for 2015 are: **Low** cost of $52 for meals and incidentals, $120 for lodging, for a total of $172. **High** cost of $65 for meals & incidentals, $194 for lodging, for a total of $259.

Capital Gains and Qualified Dividend Rates

For the 0% to 15% ordinary-income brackets, the tax rate on long-term capital gains and qualified dividends is zero for 2014. For the 25% to 35% tax brackets, the long-term capital gains and qualified dividends tax rate is 15%. For taxpayers in the 39.6% tax bracket, the long-term capital gains and qualfied dividends tax rate is 20%.

Standard Deductions		
	2014	2015
Married Filing Joint	$12,400	$12,600
Surviving Spouse	12,400	12,600
Head of Household	9,100	9,250
Single	6,200	6,300
Married Filing Separately	6,200	6,300
Dependent	1,000	1,050
Add if Blind/+65	1,200 – 1,550	1,250 – 1,550

Tax Tables

2014 Married Filing Joint And Surviving Spouses

Taxable Income

Over	But Not Over	Tax Is +	% on Excess	Of The Amount Over
$0	$18,150	$0	10%	$0
18,150	73,800	1,815	15%	18,150
73,800	148,850	10,163	25%	73,800
148,850	226,850	28,925	28%	148,850
226,850	405,100	50,765	33%	226,850
405,100	457,600	109,588	35%	405,100
457,600	———	127,963	39.6%	457,600

2014 Single

Taxable Income

Over	But Not Over	Tax Is +	% on Excess	Of The Amount Over
$0	$9,075	$0	10%	$0
9,075	36,900	908	15%	9,075
36,900	89,350	5,081	25%	36,900
89,350	186,350	18,194	28%	89,350
186,350	405,100	45,354	33%	186,350
405,100	406,750	117,541	35%	405,100
406,750	———	118,119	39.6%	406,750

Unearned Income Medicare Contribution Tax (Began In 2013)

The unearned income Medicare contribution tax is an additional tax of **3.8%** imposed on taxpayers **earning more** than establised threshold amounts (see table below). The tax is in addition to any regular income taxes. The tax is calculated by multiplying the **3.8%** tax rate by **the lower of**:

1. net investment income for the year; or
2. modified adjusted gross income over a certain threshold amount.

NET INVESTMENT INCOME for the purposes of calculating the unearned income Medicare contribution tax generally includes interest, dividends, capital gains, annuities, royalties, rents, and passthrough income from a business if you are a "passive" owner.

Modified adjusted gross income thresholds for the additional Medicare tax are:
$250,000 for married filing joint filers and qualifying widows or widowers;
$200,000 for single and head of household filers; and
$125,000 for married filing separately filers.

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2014…what a year!

The year for me had an inauspicious start as my mother had health issues. Last fall was the first time in our lives that she was unable to attend the Crow family Thanksgiving and Christmas celebrations. It just wasn't the same without her. Shortly after her 90th birthday in February, she moved to Little Sisters of the Poor and since then has gotten better and better each and every day. Many Mobilians don't know how lucky we are to have such a place in our community. The Little Sister nuns are a special breed of caring individuals and we are most thankful for them.

After completing my 36th tax season, my wife Marty and I celebrated our "Diamond" wedding anniversary with a first-time trip across the big pond. Italy, with its landscape of history and art, has always been on my bucket list and it did not disappoint. We visited Venice, Florence, Tuscany, Rome and the Amalfi Coast. It was a once-in-a-lifetime experience. Marty and I both liked Venice best because there simply is no place like it in the world.

As soon as we returned from Italy, it was time to jump into Chamber Chase to lead volunteers in signing up members, sponsors and advertisers. We had a blast and truly enjoyed getting to know the volunteers, who may be the happiest, funniest and most positive group of people I have ever been around. They all worked extremely hard to surpass our $1.6 million goal. At the end there was a big victory celebration at the Chamber, made extra special for me by my daughter Louise suprisingly driving down from Birmingham to join us.

On the subject of children, during the summer Louise and Steven Oliver got engaged to be married next May 9th. We are quite fond of Steven and are so excited about their future together. Our son Kenny is doing well as a CPA on the audit team at a great Birmingham firm.

On the CSB work front, as many of you know we opened our Daphne office in February in a location convenient for our Eastern Shore clients and team members. Our business continues to grow because of our clients' growth and their confidence in referring others to us. There is no greater compliment in the world than referrals and we are very grateful for them.

Soon we will be ushering in 2015. It is hard to believe how fast the year has flown by. To our many clients and friends who call us their trusted advisor, we say "Thank You"!

Our entire firm wishes you a blessed holiday season.

Kenny Crow