PEÑA BRIONES MCDANIEL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

Rene D. Peña, CPA
Mary Carmen Briones, CPA
James R. McDaniel, CPA

MEMBERS OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

4171 N. MESA, SUITE B100
EL PASO, TEXAS 79902-1498
PHONE: 915-542-1733
FAX: 915-544-5440
E-MAIL: cpa@cpaelpaso.com

Dear Client:

Year-end tax planning is especially challenging this year because Congress enacted the "Tax Increase Prevention Act of 2014" on the night of December 16th and gave us very little time for effective tax planning. This Act has once again extended retroactively a package of expired or expiring individual, business, and energy provisions, known as "extenders," for one year through 2014.

Individual extenders

The following provisions which affect individual taxpayers are extended through 2014:

- $250 above-the-line deduction for teachers and other school professionals
- exclusion of up to $2 million ($1 million if married filing separately) of discharged principal residence indebtedness from gross income;
- deduction for mortgage insurance premiums deductible as qualified residence interest;
- option to take an itemized deduction for State and local general sales taxes;
- above-the-line deduction for qualified tuition and related expenses; and
- tax-free distributions to charity from an individual retirement account (IRA) of up to $100,000 per taxpayer per tax year, by taxpayers age 70 and ½ or older.

High-income-earners have two other factors to keep in mind when mapping out year-end plans…the **3.8% tax surtax** on investment income **and 0.9% Medicare tax**. Individuals will owe the 3.8% tax if they have investment income and their modified adjusted gross income exceeds $200,000 ($250,000 for marrieds filing jointly, $125,000 for marrieds filing separately). The 0.9% Medicare **tax** applies to individuals receiving wages or self-employment income over these thresholds.

Business extenders

The following provisions which affect businesses are extended business credits and special rules are generally extended through 2014:

- work opportunity tax credit;
- 15-year straight line cost recovery for certain qualified leasehold improvements;
- **50% bonus depreciation on new tangible personal property;**
- **increase in the expensing election for tangible personal property placed-in-service in 2014 (up to $500,000 write-off of capital expenditures subject to a gradual reduction once capital expenditures exceed $2,000,000);**
- exclusion from a tax-exempt organization's unrelated business taxable income (UBTI) of interest, rent, royalties, and annuities paid to it from a controlled entity;
- exclusion of 100% of gain on certain small business stock;
- basis adjustment to stock of S corporations making charitable contributions of property;
- reduction in S corporation recognition period for built-in gains tax; and
- Empowerment Zone tax incentives.

Health Care Reform Law

Filling out a tax return will be more complex in 2015, thanks to provisions of The Patient Protection and Affordable Care Act (ACA) that begin with the 2014 tax year. Although primarily affecting individuals for 2014, businesses will need to be analyzed to determine exemption from ACA. Please contact us if you have any questions on how it is going to affect you and your business.

The regulations concerning the treatment of costs incurred to acquire, maintain, or improve tangible property are in effect for 2014 for ***every*** business. These new regulations offer businesses the ability to make various new elections regarding tangible property, such as a $5,000 de minimis expensing election for qualifying taxpayers.

The following general actions may help you save tax dollars, depending on your particular situation:

- Realizing stock losses to offset gains;
- Postponing income until 2015 and accelerate deductions into 2014;
- Taking required minimum distributions (RMD) from your IRA or 401(k) plan if you are 70 ½ to avoid penalties on RMD not withdrawn;
- Making gifts of up to $14,000 to each of an unlimited number of individuals to save gift and estate taxes and reporting; and
- Making capital expenditures to take advantage of the increased expensing option just extended by Congress.

Please contact us to narrow down any specific actions tailored to your particular situation so that we can advise you on which tax planning moves to make.

Very truly yours,

PEÑA, BRIONES, McDANIEL, & CO., P.C.