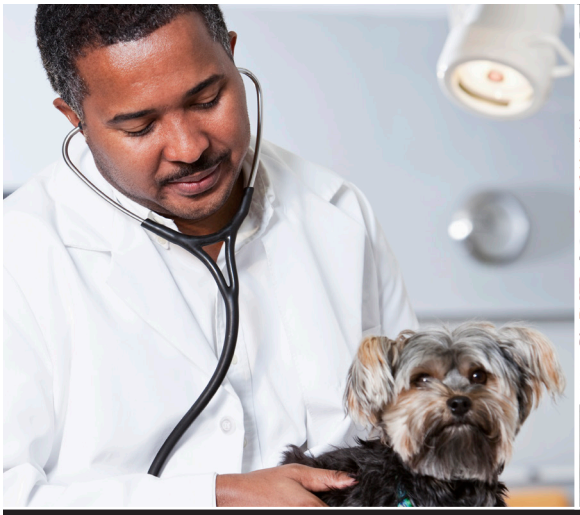
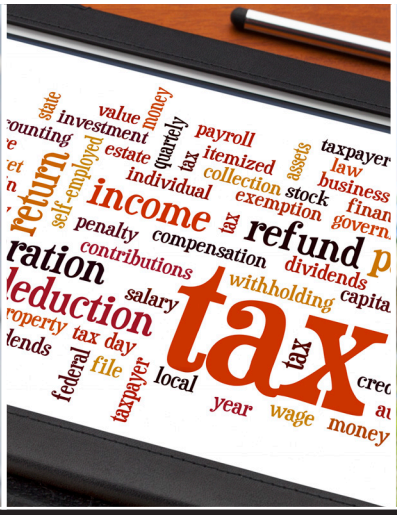




What's New That Affects You?

A Snapshot of 2014 Tax Law

The need to plan is a major theme for this year's taxpayer. While some popular tax benefits were extended and can be claimed on this year's return, the possibility of additional taxes triggered by new deductions or additional income could affect your tax bill or refund. Your CPA can explain the impact of tax provisions that may affect you and identify long-term strategies, as well as steps you can take now to reduce your tax liability. Below, you'll find a summary of the changes that might affect your 2014 tax bill.

KEY TAX BREAKS REVIVED — INDIVIDUALS

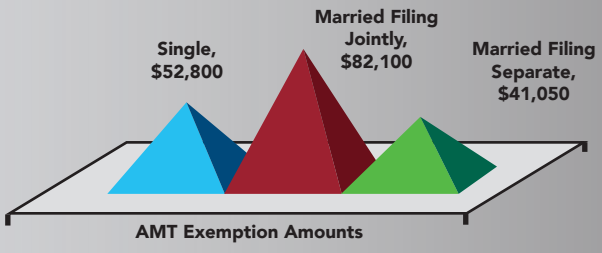
Some popular provisions that are temporarily available for individuals include:

- Deduction for state and local sales tax — a key benefit for taxpayers who live in states without income tax
- Deduction for mortgage insurance premiums (aka "PMI")
- Credit for the purchase of certain energy efficient appliances or certain energy saving home improvements
- Exclusion of mortgage debt cancellation (up to $2 million) from income
- Charitable deduction for those age 70½ or older who make direct distributions from an IRA to a charity

ALTERNATIVE MINIMUM TAX (AMT)

The AMT was designed to ensure high income taxpayers paid a minimum amount of tax, regardless of deductions. While originally intended for the wealthy, it now reaches many middle-income individuals. When triggered, the taxpayer must add back certain non-taxable income, loses certain exemptions and deductions, and must recalculate their tax at an established flat rate. They will pay the higher of the two amounts.

Good news —if you paid AMT last year but do not owe it now, you may be eligible for a credit.



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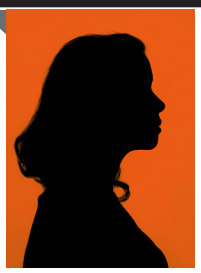
CHANGES AFFECTING HIGHER INCOME TAXPAYERS



Single Filer

- Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of $200,000
- Pays additional 3.8% net investment income tax on certain income (e.g., capital gains, interest and dividend income) if modified adjusted gross income (MAGI) exceeds $200,000
- Sees itemized deductions and personal exemptions limited or completely phased out if AGI exceeds $254,200

Married Filing Jointly

- Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of $250,000
- Pays additional 3.8% net investment income tax on certain income if MAGI exceeds $250,000
- Sees itemized deductions and personal & dependency exemptions limited or completely phased out if AGI exceeds $305,050

Important to check: Withholding is only required on wages above $200,000. If a couple's combined income exceeds $250,000, no withholding may have taken place if each spouse earned below $200,000. This may result in an under withholding (and possible penalties) when the annual tax return is prepared. Ask your CPA whether you should pay estimates.

WHAT IS MODIFIED AGI?

Modified AG is used to determine eligibility for numerous credits, including most forms of income, minus a few select deductions such as student loan interest, alimony payments, and half of any self-employment taxes paid.

Married Filing Separately

- Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of $125,000
- Pays additional 3.8% net investment income tax on certain income if MAGI exceeds $125,000
- Sees itemized deductions and personal & dependency exemptions limited or completely phased out if AGI exceeds $152,525

Head of household

- Pays additional 0.9% Medicare surcharge (health insurance tax) on wages and self-employment income in excess of $200,000
- Pays additional 3.8% net investment income tax on certain income if MAGI exceeds $200,000
- Sees itemized deductions and personal & dependency exemptions limited or completely phased out if AGI exceeds $279,650

FEDERAL TAX RATES

Income Tax

Most rates stayed the same but a new rate was created last year — highest income taxpayers ($228,800 (married filing separately) to $457,600 (joint filers)) pay 39.6%.

Capital Gains

- 10 or 15% tax bracket: No tax
- 25, 28, 33 or 35% brackets: 15%
- 39.6% tax bracket: 20%

Estate Tax: 40%

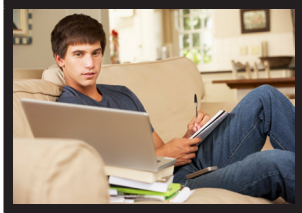
TAX BENEFITS

While some tax benefits may no longer be available, several more were extended or made permanent last year. They are generally subject to income limits.

Higher Education Costs

- American Opportunity Tax Credit — provides up to $2,500 for undergraduate expenses such as tuition, books or equipment (extended through 2017)
- Lifetime Learning Tax Credit — provides up to $2,000 for qualified graduate or undergraduate expenses
- Employer-provided educational assistance — up to $5,250 excluded from income
- Student loan interest — up to $2,500 adjustment to income per return (no 5-year limitation)

Child & Dependent Care Costs

		Credit Amount	Coverage
	Child tax credit	$1,000 per child under 17	Applies to son, daughter, stepchild, foster child, brother, sister, or a descendant (e.g., niece). Child must be dependent claimed on return as well as a U.S. citizen.
	Child and dependent care credit	20–35% of expenses up to $3,000 for the first dependent, $6,000 for multiple dependents (special rules apply if participating in employer reimbursement program)	Covers paid care for children under 13, or a spouse or other dependent who is incapable of self-care and shares same home for over 6 months. Expenses must be incurred to enable taxpayer to work or seek work.

HEALTH CARE & TAXES — KEY FACTS

Under the Patient Protection and Affordable Care Act:

- If you did not have qualifying coverage for yourself or any dependents for any portion of 2014, and do not qualify for an exemption, you will be subject to a penalty when you file your federal income tax return in 2015.
- Individuals who are within certain income limits qualify for a premium tax credit if they purchase insurance through approved market exchanges.
- Taxpayers under 65 years old can only deduct unreimbursed medical/dental expenses that exceed 10% of adjusted gross income (7.5% through 2016 for those age 65 or older).

CONSIDER THIS ...

This is the first year taxpayers will need to report their health insurance coverage on their 1040. Please be sure to supply your CPA with proof of minimal essential coverage.

WHAT CAN YOU DO TO MINIMIZE TAXES?

It may seem too early to even think about next year's taxes, much less plan for them. But it really isn't. You'll avoid the last-minute rush (and hassle) and potentially lower your tax bill! A few ways to do this:

- Maximize your retirement plan contributions to minimize income ($18,000 is the 2015 limit for 401(k)s if you are under age 50, $24,000 if over)
- Ask your CPA what AMT triggers you can avoid
- Shift to investments that are not subject to the 3.8% tax (e.g., exempt bonds)
- Keep track every month of out-of-pocket medical expenses to help you meet the 10% threshold and deduct additional expenses

Your CPA can advise you more on these and other strategies.

SELF-EMPLOYED OR OWN A BUSINESS?

Good news! In mid-December, Congress extended two provisions that allow businesses to immediately expense many costs incurred in 2014. Your CPA can explain the impact of tax provisions that may affect you and help with business and cash flow planning.

Key Tax Breaks for Businesses

Bonus Depreciation — Businesses can generally deduct up to 50% of the cost in the first year the asset is placed into service, with any remaining basis subject to regular depreciation rules.

Section 179 — Small businesses can immediately write off up to $500,000 of tangible business property placed in service during the tax year (e.g., computers, office furniture and vehicles.)

Work Opportunity Tax Credit — Employers who hired veterans or other qualified individuals (e.g., certain public assistance recipients) before Jan. 1, 2015, may be able to claim a credit for a portion of the worker's first-year wages.

Other Key Tax Facts

You can deduct up to $5,000 of startup expenses if the business is operating by the end of the year. Any remaining balance is amortized.

Changes to rules for accounting methods may affect when you can deduct certain property-related expenses. Repairs can be deducted immediately; improvements will need to be depreciated over time.

The Small Business Health Care Tax Credit (35% for small employers and 25% for small tax-exempt employers) increased to 50% and 35%, respectively.

ADDITIONAL SELF-EMPLOYED INCOME TAX RATES

- 12.4% Social Security tax on income up to $117,000
- 2.9% Medicare tax — all SE income
- 0.9% additional Medicare tax on earnings over $200,000 (single)

WHAT CAN YOU DO TO MINIMIZE TAXES?

- Consider paying employee bonuses to minimize income if you are expecting 2014 to be a profitable year.
- Maximize contributions to your retirement and your employees' plans
- Accelerate payments to vendors to include expenses in current year (cash basis taxpayers)

CPA