Newsletter
Fall 2014

TYLER LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INSIDE THIS ISSUE

www.TylerLynchPC.com (617)354-3814

Year-End Charitable Tax Planning

Donating appreciated assets (including securities) can be a thoughtful tactic for people who cannot offset capital gains with capital losses.

Illustration 1: Jane Butterworth invested $35,000 in a silicon valley technology company in 2009. The shares are now worth $50,000. Jane thinks that 2014 is the year to realize her stock appreciation. Let's assume that the capital gain will be subject to federal and state taxes at a combined rate of 30%, say $4,500.

In this illustration, Jane has a commitment to donate $50,000 to her college. To meet this commitment she will donate her shares, current value $50,000 as a memorial gift to her college.

By this choice, Jane receives a $50,000 charitable tax deduction for 2014 and avoids the capital gains tax of $4,500. If she had sold the shares and then contributed the cash proceeds to her college, the net amount after taxes from the securities sale would have been $45,500. The tax amount would create a shortfall that she would need to make up by additional cash.

Illustration 2: What if Jane wants to make $5,000 contributions to 10 different charities? To use her appreciated fund shares, she would have to deal with a much more paperwork, getting information from each charity and instructing her investment custodian firm to forward $5,000 of appreciated shares to ten charities.

To deal with this choice Jane can use Donor Advised Fund, (DAF), to handle multiple transfers with ease. Many financial firms and community foundations offer a DAF.

(continued on page 2)

IRS Updates Phone Scams Warning

Have you ever received a phone call from someone claiming to be from the Internal Revenue Service? The Internal Revenue Service recently reissued a strong warning to guard against sophisticated and aggressive phone scams targeting taxpayers, including recent immigrants, as reported incidents of this crime continue to rise nationwide. So far the Treasury Inspector General for Tax Administration has received 90,000 complaints about these scams. Potential victims may be told they are entitled to big refunds, or that they owe money that must be paid immediately to the IRS. Some victims are threatened with deportation, arrest, having their utilities shut off, or having their driver's licenses revoked.

To avoid becoming a victim of these scams, you should know:

- The IRS will always send taxpayers a written correspondence of any tax due via the U.S. mail.
- The IRS never asks for credit card, debit card or prepaid card information over the telephone.
- The IRS never insists that you use a specific payment method to pay your tax.
- The IRS never requests immediate payment over the telephone.

(continued on page 2)

(continued from page 1)

Intending to make multiple donations, Jane has the fund company transfer her $50,000 worth of shares to a DAF she has specified. If she acts by year-end, Jane will get the $50,000 tax deduction for 2014, she'll avoid capital gains tax.

After the transfer, the DAF can sell the shares and put the $50,000 into Jane's account. Then Jane (the donor) can advise the fund to send $5,000 to Charity A, $5,000 to Charity B, and so on. Even if this process runs into 2015 and future years, Jane will not lose her 2014 charitable tax deduction.

Year-End Retirement Tax Planning

One popular way to reduce the impact of higher tax rates and deduction limitation is to make tax deductible contributions to retirement plans. In 2014, the maximum salary deferral for 401(k) and similar plans is $17,500 or $23,000 if you are 50 or older. If you have not maximized such contributions yet, consider increasing the amount by year-end.

Business owners, professionals, and self-employed individuals may be able to make even larger deductible contributions to retirement plans. Often, the deadline to create such a plan for the year is December 31, even though the actual contributions may be deferred for several months. Our office can help you determine which type of plan would be best for you and your employees.

Refining Roth IRAs
The end of the year is often a good time to convert a traditional IRA to a Roth IRA. If you are at least age 59½, all Roth IRA distributions of investment earnings are tax-free five years after your first Roth IRA was established and funded. What's more, the five year clock starts on January 1 of the conversion year. Thus, a December 2014 conversion will have a January 1, 2014, start date for this purpose and reach the five-year mark on January 1, 2019, just over four years from now.

The downside of a Roth IRA conversion is that you must pay income tax on all pretax dollars you move from your traditional IRA to a Roth IRA. Converting can be (to coin a phrase) tax expensive.

Illustration 1: Susan Carson is a single taxpayer with $150,000 of taxable income in 2014, before any Roth IRA conversion. If Susan

(continued on page 3)

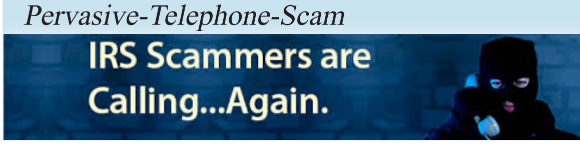
(continued from page 1)

- The IRS will always treat you professionally and courteously.

When unsuccessful the first time, sometimes phone scammers call back trying a new strategy. Other characteristics of this scam include:
- Scammers use fake names and IRS badge numbers. They generally use common names and surnames to identify themselves.
- Scammers may be able to recite the last four digits of a victim's Social Security number.
- Scammers spoof the IRS toll-free number on caller ID to make it appear that it's the IRS calling.
- Scammers sometimes send bogus IRS emails to some victims to support their bogus calls.
- Victims hear background noise of other calls being conducted to mimic a call site.
- After threatening victims with jail time or driver's license revocation, scammers hang up and others soon call back pretending to be from the local police or DMV, and the caller ID supports their claim.

If you get a phone call from someone claiming to be from the IRS, here's what you should do:
- If you know you owe taxes or you think you might owe taxes, call the IRS at 1(800)829-1040. The IRS employees at that line can help you with a payment issue, if there really is such an issue.
- If you know you do not owe taxes or have no reason to think that you owe any taxes (for example, you've never received a bill or the caller made some bogus threats as described above), then call and report the incident to the Treasury Inspector General for Tax Administration at 1(800)366-4484.

Article Source: http://www.irs.gov/uac/Newsroom/IRS-Reiterates-Warning-of-Pervasive-Telephone-Scam



(continued from page 2)

converts her traditional IRA, which contains $250,000 in pretax dollars, to a Roth IRA, she will report $400,000 of taxable income on her tax return. Let's assume a marginal tax rate of 33%, so Susan will owe more than $80,000 in tax on the conversion.

In this example, Susan has an excellent idea of what her taxable income will be for 2014. Her $150,000 of taxable income puts her in the 28% tax bracket. Thus, Susan decides to convert $35,000 of her Roth IRA in 2014. She will stay in the 28% bracket, and will owe $9,800 in tax on the conversion. Over time, a series of such partial conversions can build up Susan's Roth IRA so that it can become a valuable source of tax-free retirement income.

However, a conversion in 2014 can be recharacterized (reversed) back to a traditional IRA, in whole or in part, until October 15, 2015. If you are interested in finding out more information regarding Roth IRA, or converting your traditional IRA to a Roth, feel free to contact us!

College Financial Aid May Start With the Free Application for Federal Student Aid (FAFSA)

Just as high school students may take the SAT (Scholastic Aptitude Tests) to provide scores that colleges require as part of the admission application documents, parents and students are required to submit a FAFSA application to be eligible for many types of grants, scholarships, education loans.

Aid applicants use the FAFSA to report the student's assets, student's income, parents' assets, and parents' income. The required evidence may include the student's social security number or alien registration number if not a citizen, recent federal income tax returns, recent records of investments, bank statements, and untaxed income. If one is a tax dependent of your parents, this information relating to parents will be required. In many cases you can use the *IRS Data Retrieval Tool for FAFAS* to request that the IRS transfer your relevant tax return information to your FAFSA application.

FAFSA data are placed into a formula to determine the expected family contribution (EFC) for the coming academic year. If the cost of attending a given college exceeds the EFC, the student may be offered some form of financial aid. Please check with the college or university your child is considering attending to determine the deadline for submitting the FAFSA report. In general, the deadline for Massachusetts residents is May 1st by midnight.

Example 1: Amy McTavish fills out the FAFSA, which calculates that her EFC for the coming school year is $22,000. If Amy will be attending a college where the published total cost is $36,000, she may receive a $14,000 aid package to fill the gap.

Example 2: Brad Taylor is a high school senior in 2014–15 who will start college in August 2015. In January 2015, Brad fills out the FAFSA with help from his parents. They include their best estimates for 2014 financial information, including taxable Adjusted Gross Income (AGI). In April 2015, after the Taylors' tax returns for 2014 are completed, they update the data on the FAFSA that was previously submitted.

(continued on page 4)

(continued from page 3)

Application assistance
In addition to FAFSA, some colleges require other financial aid forms, and the entire process can be time-consuming. Our office can help college students and their families to organize the required documents and submit the necessary materials on time.

Grandparent Aid for College Costs

Many grandparents would like to help their grandchildren with the steep costs of higher education. How can grandparents help?

Grandparent gifts
The simplest tactic is to give money to youngsters before or during their college years. In 2014, the annual gift tax exclusion is $14,000 per recipient.

Illustration 1: Eva Tanguay has three grandchildren. She can give each of them $14,000 this year for their college funds. Eva's husband, Rob, can make identical gifts to each of their grandchildren. Such gifts will not be subject to income or gift taxes. (Larger gifts may reduce this couple's gift tax exemption and, ultimately, their estate tax exemption.) In addition to all of these $14,000 gifts, the Tanguays can pay the college tuition for any of their grandchildren. No matter how large these outlays might be, Eva and Rob will not owe any tax or suffer any reduction in their transfer tax breaks.

Reducing student aid
Such grandparent gifts may have their disadvantages, though. They could result in reduced financial aid.

Illustration 2: Over the years, Rob and Eva have made gifts to their grandson Doug. Including investment appreciation, Doug has $50,000 worth of assets.

The FAFSA charges Doug's assets by 20%, when calculating the expected family contribution (EFC), so his $50,000 could reduce his financial aid by $10,000 (the 20% assessment times $50,000 of Doug's assets) Tuition payments by Rob and Eva for Doug's schooling could result in even larger aid cutbacks.

For some grandparents, this will not be a major concern. The student's immediate family might have such extensive assets and such substantial income that need-based financial aid will not be possible. However, today's college costs are so high that aid might be available, even to well-off families. The possible impact on financial aid should be discussed with the student's parents.

Grandparents to parents
Instead of making gifts directly to grandchildren, grandparents can give assets to their own children who are the student's parents. This plan will have less impact on financial aid.

Year-End Tax Planning Tips

- If you have some stocks that have a gain status and some that have a loss, you can sell both positions. In this case you can offset losses against gains.
- In general, it is advantageous to reduce your income taxes by postponing taxable income and accelerating expenses.
- You can use credit cards to pay deductible expenses instead of a cash payment.

(continued on page 5)

(continued from page 4)

Illustration 3: Assume that Eva and Rob have made gifts to their daughter Louise, Doug's mother, rather than making gifts directly to Doug. Such gifts have increased Louise's assets by $50,000. A parent's assets are assessed at no more than 5.64%, on the FAFSA, so the additional assets held in Louise's name would reduce possible aid by $2,820 (5.64% of $50,000)

What about a 529 plan?

Concerns about the funding education for grandchildren may be addressed by contributing to a 529 college savings plan. Such plans have many advantages.

Illustration 4: Eva Tanguay creates three 529 accounts, naming a different grandchild as the beneficiary for each one. Now Eva has control over how the money will be invested and how it will be spent. Any investment earnings will be tax-free and distributions also will be untaxed if the money is used for the beneficiary's college bills. Eva can even reclaim the funds in the 529 if she needs money, paying tax and (with some exceptions) a 10% penalty on any earnings.

What's more, a 529 account owned by a grandparent will not be reported on the grandchild's FAFSA until the 529 account is distributed. If the student is receiving need-based aid, distributions from the grandparent's 529 plan can be postponed until the last FAFSA has been filed.

TAX CALENDAR

NOVEMBER 2014

November 10

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the third quarter of 2014. This due date applies only if you deposited the tax for the quarter in full and on time.

Employees who work for tips. If you receive $20 or more in tips during October, report them to your employer.

November 17

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in October if the monthly rule applies.

DECEMBER 2014

December 10

Employers. Deposit payroll tax for payments on Dec 3-5 if the semiweekly deposit rule applies.

Employees who work for tips. If you receive $20 or more in tips during October, report them to your employer.

December 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in November if the monthly rule applies.

Corporations. Deposit the fourth installment of estimated income tax for 2014.

If you would like more information on these topics or if you would like to read other relevant topics, please refer to our website at

www.TylerLynchPC.com

Join

Connect

Call us @ (617)354-3814

186 Alewife Brook Parkway, Suite 200
Cambridge MA 02138