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Client Information Bulletin

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Seven Smart Year-End Strategies for Individuals *Ideas to reduce your 2014 tax liability*

Year-end tax planning is rarely, if ever, simple. This year is certainly no exception. As we approach the end of 2014, certain tax provisions have remained in limbo, perhaps depending on the results of the midterm elections. Nevertheless, this does not mean you should stand idly by. Here are seven timely tax strategies that may be available to you or other family members this year.

1. Maximize deductions for charitable gifts. As a general rule, you can deduct the full amount of cash (or cash-equivalent) gifts made to qualified charities if you keep the proper records. Also, you may deduct the fair market value of gifts of appreciated property if certain requirements are met. **Caveat:** Special limits may apply, including a possible reduction in deductions for certain high-income taxpayers.

2. Balance capital gains and losses. Typically, you might realize capital gains from sales of securities or other property to offset capital losses or harvest losses to offset prior gains. The maximum tax rate on long-term capital gains is 15% (20% for those in the top 39.6% ordinary income bracket). Conversely, any excess loss may offset up to \$3,000 of ordinary income before any remainder is carried over to next year. **Note:** A 3.8% surtax on net investment income (NII) may also apply.

3. Factor in the AMT. Despite recent increases in exemption amounts for the alternative minimum tax (AMT), many taxpayers still must pay this “stealth tax.” Generally, the AMT applies if you have an overabundance of “tax preference items,” especially if you reside in a high-tax state. Have a review of your AMT liability conducted to determine whether you should shift income items or deductions at year-end.

4. Prepay state and local income taxes. Absent other circumstances, the conventional wisdom is to reduce your current income tax bill whenever possible. Therefore, you might arrange to prepay any state and local income taxes due on January 1, 2015, before the end of the year. As a result, you can increase the annual deduction for state and local taxes.

5. Bunch up medical expenses. For 2014, the threshold for deducting medical expenses for most working taxpayers is 10% of adjusted gross income (AGI), although it remains at 7.5% of AGI for those age 65 or over. If you have a shot at a deduction, move elective expenses, such as dental cleanings and physical examinations, into this year. Otherwise, you might as well postpone elective expenses to next year.

6. Secure dependency exemptions for kids. Generally, you can claim

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a dependency exemption for children under age 19 or full-time students under age 24. However, you must provide more than half the child's support to qualify. When necessary, increase support at year-end to ensure that you clear the half-support mark this year.

7. Split income with family members. When appropriate, transfer income-producing property to low-bracket family members. Note that a 0% rate on long-term capital gains applies to taxpayers in the two lowest ordinary income tax brackets. **Caveat:** Under the kiddie tax, unearned income of a young child generally is taxed at your tax rate to the extent it exceeds \$2,000 in 2014.

Depending on your situation, you may use one or more of these strategies or others. Have a year-end plan tailored to your needs.

Let's Get Physical!

It is important to stay healthy so you can successfully run your company.

Tax incentive: If your C corporation pays for a year-end physical, the cost is completely tax-free to you. What's more, this fringe benefit does not have to be offered to all employees.

If you pay for the examination yourself, it qualifies as a deductible medical expense under the usual tax rules.



Five Year-End Moves for a Small Business

Tax-planning ideas in the business sector



Year-end tax planning is not restricted to individual taxpayers. Some astute moves by the owners or managers of a small business can also shave dollars off your

tax bill. As it does with individual tax planning, uncertainty exists, but here are five practical ideas to consider in any event.

◆ **Wait and see on equipment purchases.** Unless Congress takes action, the maximum Section 179 allowance for qualified property placed in service remains at just \$25,000 for 2014, as opposed to \$500,000 last year. Also, the special “bonus depreciation” tax break generally expired after 2013. **The upshot:** Keep one eye on your purchases and the other on the tax law. If the limit remains at \$25,000, you might stay close to that level. And, if Congress approves an increase, be ready to pounce. **Note:** If new equipment is needed, you are still eligible for regular depreciation deductions over time.

◆ **Fix up the office or plant.** Generally, expenses for minor repairs that you make to the business premises—

for example, replacing a broken window—are currently deductible. Conversely, the cost of a capital improvement is added to your basis in the property. When possible, take care of repairs before year-end. Note that new regulations issued last year address several complex issues in this area. Current deductions may be available under a special safe harbor election. Contact your professional tax adviser for more information.

◆ **Salvage bad debt deductions.** If you are not paid for amounts owed to your business, at least you may be able to salvage a deduction for debts that are “worthless.” But you must show that you’ve made good-faith efforts to collect the debts. To secure a deduction for 2014, step up your collection activities before the end of the year. Remember to keep detailed records—including correspondence and e-mails to debtors—of your efforts.

◆ **Start a new venture.** Under a special tax law provision, you may be able to deduct up to \$5,000 of qualified start-up expenses of a new business. Any excess must be amortized over 180 months. To qualify for the current tax write-off, the operation must be an ongoing activity, so make sure the doors are officially “open for business” before the end of the year.

◆ **Buy an SUV for business driving.** Normally, if you buy a vehicle in 2014 and use it for business driving, your first-year depreciation deduction is strictly limited by the

“luxury car” rules. However, these rules do not apply to certain heavy-duty vehicles, including sports utility vehicles (SUVs), weighing more than 6,000 pounds. Instead, your deduction is capped at a generous \$25,000. If you are in the market for a new vehicle, weigh this option.

Of course, this is just a brief overview of five year-end tax-planning ideas. You may use a combination of these or other ideas. Obtain guidance as to how to plan for your particular situation.

Wise Up: Protecting Intellectual Property

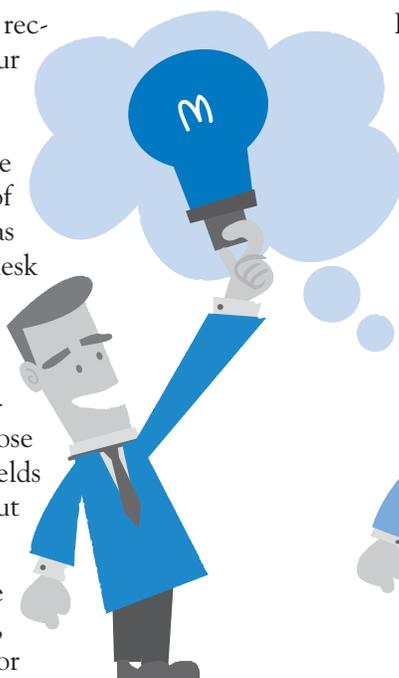
Know basic rules for company assets

It does not take a genius to recognize the importance of your company’s “intellectual property,” including trademarks, copyrights, patents and trade secrets. Although an item of intellectual property is not as tangible as an automobile, a desk or a piece of equipment, it may be among the most valuable assets owned by your company. This is particularly true for companies in certain industries—those in the scientific and medical fields immediately come to mind—but it can apply across the board.

Basic parameters: Patents are used to protect inventions, copyrights provide protection for artistic and literary works, and trademarks give companies the exclusive right to use their unique identifying symbol. In general, these properties should be registered with the federal government. In the case of trademarks and patents, the registration is handled within the U.S. Patent and Trademark Office. Copyrights are registered by submitting the work to the Library of Congress.

If a business fails to act promptly to protect its intellectual property, it may forfeit its rights. Similarly, if you permit others to use your trademark, the public at large can eventually use it. Many common product names (e.g., aspirin) were once trademarks that have been lost over time.

How long does the protection of intellectual property last? It depends on the type of property. For example, a patent is generally good for 20 years. On the other hand, copyrights remain in effect for the author’s life plus 70 years. Corporate copyrights are good for the shorter of 95 years from publication or 120 years from creation.



If you think copyrights are just for books and plays, think again. They may also protect such diverse items as music recordings and computer programs. Note that there is no time limit on trademarks.

How can you protect your company in this area? With the help of an experienced attorney, you should regularly review the status of your intellectual property. For example, in a larger company you might meet with representatives of the research, marketing and financial departments to discuss potential conflicts.

Besides reviewing assets that have already been recognized as intellectual property, discuss new items that may be added. This includes an examination of all products and processes to uncover patentable technology as well as potential trademarks.

How often should a review be conducted? On a periodic basis—perhaps once a year. In addition, other events such as a merger, acquisition or an initial public offering may trigger the need for a review.

Finally, your company should take precautions in connection with its trade secrets. Make sure that employees who have access to trade secrets are covered by confidentiality agreements or noncompete agreements—or both. Do not hesitate to seek professional assistance regarding these matters.



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*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*



That's the Way the Cookies Crumble

Exposing myths about computer cookies

In the early days of Internet use, “cookies” were sometimes thought to be a significant threat to security. Now it has become clear that computer cookies generally accomplish more good than bad.

What exactly is a cookie? Briefly stated, it is an encrypted file, stored on your computer, that holds information that may be accessed by you or the Web server. A cookie typically contains some script or data so that the information from a visit is carried forward. Every time you return to the same Web site, the browser retrieves and sends this file to the Web site's server.

Generally, the browser's configuration screen will allow you to view the cookies stored on your computer and, if you choose, to delete them. But cookies can prove to be beneficial to users.

Notably, cookies may help authenticate your presence when you log in to a secure area of a Web site. Your log-in information is stored in the cookie so you can revisit the Web site without having to reenter the same authentication information over and over again.

A session cookie stores information about your Web page activities so you can easily pick up where you left off on your last visit. The cookies effectively “tell” the server which pages to show, so you do not have to start navigating the site again. Thus, the cookie serves as a virtual bookmark within the site. In this manner, cookies are used to store ordering information for online “shopping carts,”

rather than forcing you to reenter all the items you placed in a cart.

Similarly, tracking cookies may be used to store user preferences. Many Web sites allow you to customize how information is presented. These changes make the site easier to navigate and effectively create a user “profile” at the Web site.

Generally, browsers have built-in privacy settings that will provide varying levels of cookie acceptance, expiration time and disposal after visiting a site. Backing up your computer can provide protection for these files.

But the proliferation of cookies may still lead to some security concerns. For one thing, because cookies are transmitted back and forth between a browser and Web site, an interloper might be able to intercept sensitive information. Although this is not common, it could happen if the browser is connecting to the server using an unencrypted network (e.g., a nonsecured WiFi channel). Internet security is available if you use a reputable antivirus program.

Another potential danger comes from faulty cookie-setting systems on servers. If a Web site doesn't require browsers to use only encrypted channels, an outsider may be able to have browsers send sensitive information over insecure channels. Then the hacker steals the vital data for unauthorized access purposes.

Cookies may make your Internet usage easier, but there are potential pitfalls. Be cautious both at home and at work.

Facts and Figures

Timely points of particular interest

➔**Making Your Mark**— If you are an entrepreneur, you are not likely to be successful if you wait around to get noticed. You cannot sit back and expect customers or clients to come knocking on your door. It is usually better to take matters into your own hands and make a splash. Be aggressive when you are starting out, and continue this philosophy in growing the business.

➔**Cramped Quarters**— In a new case, the IRS denied home office deductions for a company employee who did not use a space in a small New York City apartment exclusively for business purposes. But the Tax Court upheld the deductions. The taxpayer's personal use of the office area was minimal, and it was virtually impossible to avoid due to the apartment's size.

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