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Pre-tax season to-dos:

Organize for 1099 and W-2 filings: 1099-MISCs and W2s must be mailed out to recipients by January 31. This applies not just to small businesses but to rental property owners as well. Remember, you have to positively attest on each year's tax return that you are filing a 1099-MISC for all subcontractors you paid $600 or more to in the calendar year. Reach out to subcontractors used in 2014 now to make sure you have a signed W9 from them to allow us to file their 1099-MISCs.

529 plan contributions must be made by December 31 to be deductible for this year.

Affordable Care Act waivers need to be in-hand by the due date of your return.

Roth conversions: If you had low income in 2014 and you have traditional IRAs, you may save money over the long term by converting some of your traditional IRAs to Roth IRAs before December 31. (Both traditional and Roth IRA contributions must be finalized by April 15.)

Unincorporated Business tax, MCTM tax and perhaps, estimated state taxes should be paid before December 31, instead of waiting until January 15, to get your federal tax deduction one year earlier. Clients who are traditionally subject to alternative minimum tax might not benefit from paying their personal state estimated tax early. Call to ask if you are unsure.

New York State LLC filing fees must be paid by February 28. Please call our offices as soon as your form arrives in the mail so we can help you file timely.

Dear clients,

I hope you have all had a good year, and I look forward to seeing you or talking to you this coming tax season. We start seeing clients during the last week of January and those of you who we preschedule appointments for will be getting your appointment postcard within the next two weeks. Remember that the appointment is merely a suggestion based on last year's schedule and the amount of time I expect your return will take to prepare. *Please contact us to confirm or change your appointment by January 19.* After that we open up the schedule to all clients.

This letter is similar in format to one's I've sent in previous years. The big tax news for 2014 and 15 is still the Affordable Care Act. Note that the Insurance Marketplace for 2015 is open now through February 15, 2015. If you are buying your own health insurance your tax return will be more complicated this year. If you are seeking an exemption for 2014, most likely you will have to go directly to the Insurance Marketplace for it. We will need evidence of your exemption before we can finalize your tax return so please don't wait until March: **Do it now**.

For those who want to extend the filing of their tax returns we can most likely file a six-month extension for you, given advance notice. Remember with an extension you still have to estimate and pay what you will owe by April 15, so we will need some information from you to comply. Contact the office, if at all possible, by March 21 to coordinate the filing of your extensions. And always be sure to get confirmation of the extension filing from us before April 15.

Sara

Sincerely, Sara and the staff of the Sara Brandston Group.

A short checklist of what to bring to your appointment. Visit our website (www.brandstongroup.com) for additional details and descriptions, as well as several fact sheets to guide you through the 2014 tax season.	Income and Assets: • W2s • 1099s • 1098s • K1s • IRA Year End Statements • Compilation of income for self-employed individuals • Cost basis on security sales	Deductions: • List of estimated taxes paid (with dates paid) • All deductions *per taxpayer* • Student loan interest • Tuition (Form 1098-T) • Debt forgiveness • Long-term care expenses • Evidence of health insurance coverage

Audit and Notices

A recent study showed that as many as 70% of IRS notices are incorrect.

If you receive a notice from the IRS, or any taxing authority, please let us know as soon as possible.

If you purchase audit coverage with your tax return, we will draft responses and defend your return at no additional charge. If you do not, we will let you know the cost to handle it for you.

New York State has gotten aggressive on audits. With the state in dire need of funds, and the IRS no longer auditing many returns that are subject to alternative minimum tax, New York has had to go it alone. Unlike an IRS audit, there is no auditor to petition face-to-face. New York's tactic is to withhold a refund pending the outcome of an audit. The audit will appear in the mail as a "Notice of Adjusted Refund." It is vital that you let us know if you receive any correspondence from any income taxing authority in order to determine what is being investigated and to help you defend your return

At right are a few documentation rules to review. More are available on the website:

www.brandstongroup.com

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2014 are calculated at **23½¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2014 is **56¢ per mile** (down ½ cent from 2013).

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you use your computer for investments, the business percentage of use may also be deductible if you itemize.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self-employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

WHAT'S NEW FOR 2014?

All taxpayers are required to have health insurance. Taxpayers not having adequate health coverage will pay a penalty unless they are considered exempt. The penalty will start small in 2014 and increase over time. For 2014, uninsured individuals will pay the greater of $95 or 1% of their income over the filing threshold for 2014.

Taxpayers that are already a part of their employer's eligible plan are considered covered and do not have to be concerned about penalties.

Exempt individuals are those incarcerated, not legally pre- sent in the United States, members of certain religious sects, American Indians, those on Medicare or Medicaid, Children's Health Insurance, veteran's health care, or any other government insurance.

If you purchased health insurance from the Health Insurance Marketplace which was open for enrollment until March 31, 2014 and your income is under 400% of the Federal Poverty level, you will receive a Premium Assistant Credit. This will be paid to your insurance company to reduce premiums. When you file your 2014 tax return, the credit you received will be adjusted depending on your current income. Only tax- payers who purchased health insurance from the Marketplace will get this credit.

If you missed out on the Marketplace for 2014, the Market- place to purchase insurance for 2015 runs from November 15, 2014 to February 15, 2015.

You can still get 2014 cover- age through the Marketplace in special cases including marriage, birth, adoption, a move outside your service area, loss of health coverage, applying for Medicaid, and more.

The IRS is understaffed. The IRS budget was slashed by 1 billion since 2010, and 10,000 employees have been lost.

The IRS is behind in answering correspondence. At the end of 2013, it had a backlog of about 1.1 million letters. If you are waiting for an answer to your letter, just wait.

If you have amended a tax return, you will probably have to wait at least 12 weeks for a response. After 3 weeks, you can check your status online. You will need your SS number, date of birth, and zip code.

The Supreme Court has been busy making tax decisions. Bankruptcy creditors can get inherited IRAs.

Severance pay to laid-off employees is subject to FICA. The IRS likes this decision because it would owe over 1.3 billion if the decision went the other way.

A for-profit corporation, Hobby Lobby, argued in court that the contraceptive man- date in the ObamaCare bill violated its religious beliefs. They won. The Supreme Court has never before made a decision for a for-profit corporation on religious rights. You can expect to see a lot of comment on this issue

Taxpayers have a new Bill of Rights.
Your rights include:
- The right to be informed
- The right to quality service
- The right to pay no more than the correct amount of tax
- The right to challenge the IRS position and be heard
- The right to appeal to the IRS in an independent forum
- The right to finality
- The right to privacy
- The right to confidentiality
- The right to retain representation
- The right to a fair and just tax system

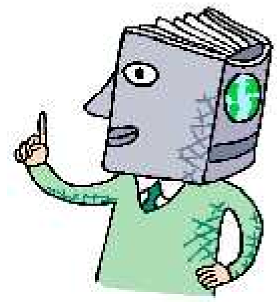
Bitcoins are now treated as property for tax purposes. If they are accepted for payment they are included in income. If they are exchanged or sold, a gain or loss will be realized.

The IRS has decided that IRA rollovers from one account to another or IRA withdrawals replaced within 60 days will be allowed only once a year, be- ginning in 2015.

Charitable donations
The IRS is cracking down on deductions to charity-both money and goods. Please look to our website where you will find extensive instructions on how you must document the charitable giving in order not to lose the deduction on examination.

Medical Expenses
IRS is making it harder to deduct medical expenses. The new threshold for clients under 65 is 10.5%, up from 7.5% previously. I've posted an excellent piece on what expenses are deductible and whose expenses you can deduct.

Foreign Money
Many of you know that the Treasury Department is very serious about US citizens reporting all their assets and income, whether at home or abroad. The due date for foreign account reporting is in June but we must include the income and balances on those accounts by April 15 with your 1040. Furthermore, if you received $100,000 or more from abroad in 2014, whether as a gift or a bequest, you must file an additional form: 3520. Please let us know right away if this applies to you. The good news on the foreign reporting front is that owners of Canadian retirement accounts no longer need to include the earnings on the 1040. They still must be included on form 8938, but that is only for informational purposes.



Newly Married Lesbian and Gay Couples

We still have until April 15, 2015 to amend 2011 returns.
Any couples where one partner received health insurance for both partners through their employer should check to make sure that their benefits are now being reported on a pretax basis. It's also a good idea to check with HR that any previous benefits that were reported as taxable have now been corrected to nontaxable status. This may mean getting a corrected W-2 or having to amend a prior tax return.

Gifts and Estate Planning

2014 individual gifts are still capped at $14,000.
New York State has changed its estate tax rules, to eventually match the IRS's in 2019. Until then clients who potentially have taxable estates should check with their lawyers to make sure that they won't be subject to an undue burden if they or a loved one passes away in New York before 2019.
It's important to review your Health Care Proxy, Will etc. every few years to make sure they're in compliance with current federal and state laws.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2014 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $47,050 (single) or under $94,100 (married) you may be able to sell stocks or property at a gain in 2014 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a year's worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date om your 2014 tax return, including extensions.

Pay all bills already received for operating expenses rather than deferring payment until 2015. If you need new equipment, save tax dollars now by purchasing before the end of the year; remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2015.

AND . . .

THE FUTURE?

This is an election year.
Any action from Congress will most likely be last minute. The most important tax item on the agenda is approval of the extenders (55 tax provisions that expired on December 31, 2013). Some or all of these extenders are expected to be revived. There will most likely be a last minute tax bill on this issue causing some delays in the beginning of next year's filing season. Some of the more likely to survive provisions follow:

- Direct transfers of IRAs to charity
- Optional sales tax itemized deduction
- Energy credits
- Home mortgage debt forgiveness relief
- Mortgage insurance premiums treated as deductible interest
- Tuition and fees deduction for higher education
- Educator expense deduction
- 50% bonus depreciation, and generous Section 179 expensing on business equipment

Tax reform, for the moment, is on the back burner since it needs Congressional action.

Partnerships and Corporations
Your returns are due on March 15, 2015. Please send us your bank statements, credit card bills, and other pertinent statements by January 21, 2015. We will then arrange an appointment to finalize your return.

The basic strategy for year-end tax planning can be summed up in the following two statements:

● Channel your income into the year where it will be taxed at a lower rate.

● Channel your deductions to the year where your income will be taxed at a higher rate.

If you need to think about year-end tax planning please get in touch with us before the end of the year.