

December 8, 2014

2014 Year-end Tax Update

By Cynthia Aiken, CFP[®]

As we enter December and race toward 2015, the last thing on your mind is taxes, but let us remind you of the top three issues to consider before December 31:

- **Gifting** - Plan and execute your gifts to individuals, charities, for educational or medical expenses, or to a child or grandchild's 529 plan this month. Due to the record market highs, you might consider gifting appreciated securities.
- **IRA/Roth/401(k)/SEP and SIMPLE contributions** – If you haven't maxed out your 401(k), SEP or SIMPLE accounts, then now is the time. Likewise, if you are planning to contribute to your IRA or Roth for 2014, you have until April 15th to make your contribution.
- **Flexible Spending Account** – Fully spend up to your medical flex spending limit. In most cases "use it or lose it" before yearend applies to most plans.

As a reminder, the following are significant updates for 2014 taxes. (Note the attached Tax Guide.)

INVESTMENT TAXES

Long Term Capital Gains and Qualified Dividend Income – the LTCG/QDI tax rate is 20% for those in the top tax bracket of 39.6% (over \$457,600 joint). For taxpayers in the 25-35% ordinary income tax bracket (\$73,800-\$457,600 joint) the LTCG/QDI tax rate is 15%. The Medicare surtax adds an additional 3.8% to capital gains tax for those earning over \$250,000 jointly. For those in the 10-15% ordinary income tax bracket, there is no capital gains tax or Medicare surtax.

3.8% Medicare Surtax – applies to net investment income of filers with modified adjusted gross income exceeding \$200,000 for single filers and \$250,000 for married couples filing joint. Net investment income primarily includes interest, dividends, royalties, annuities, rents and excludes wages, self-employment income, Social Security Benefits, alimony and distributions from 401(k)s, pension plans and IRAs.

Traditional IRA and Roth IRA Contribution Limitations – have remained the same since 2013 at \$5,500 for regular contributions and an additional \$1,000 catchup for those taxpayers over age 50. Your account must be set up by December 31, 2014, but you have until April 15, 2015 to make your contribution.

Traditional IRA Deduction Limitations – Deductibility of IRA contributions for income tax purposes is dependent upon coverage by an employer retirement plan and income level and phases out as income rises. Specifically, the deduction is phased out for the following Modified Adjusted Gross Income thresholds.

- If covered by an employer retirement plan, the phase out is -

Single	\$60,000-\$70,000
Married Filing Jointly	\$96,000-\$116,000
- If one or both not covered by an employer retirement plan -

Single	Full deduction
Married Filing Jointly, neither covered	Full deduction
Married Filing Jointly, one covered	\$181,000-\$191,000 phase out

Roth IRA Contribution Limitations – Contributions to Roth IRAs are phased out for Modified Adjusted Gross Income of \$114,000-\$129,000 for single filers and \$181,000-\$191,000 for married filing jointly filers.

401(k), 403(b) and most 457 Plan Contribution Limits – in 2014 are \$17,500 with an additional \$5,500 for employees age 50 and over and will increase to \$18,000 and \$6,000 in 2015.

SEP IRA Contribution Limits – Contributions cannot exceed the lesser of 25% of compensation or \$52,000 for 2014 and \$53,000 for 2015. These limits apply to contributions made to all defined contribution plans, which includes SEPs.

SIMPLE IRA Contribution Limits – Employee salary reduction contributions are limited to \$12,000 in 2014 and \$12,500 in 2015 with catchup of \$2,500 in 2014 and \$3,000 in 2015.

INCOME TAXES

Top Marginal Tax Rate – of 39.6% applies to taxpayers with taxable income above \$406,750 for single filers and \$457,600 for married filing jointly filers. This top rate was added in 2013 and may be around for the foreseeable future. (Note the attached Tax Guide.)

Standard Deduction – increased to \$6,200 and \$12,400 from \$6,100 and \$12,200 for single and married filing jointly filers, respectively.

Itemized Deductions Phase out – is 3% of the amount by which AGI exceeds income thresholds of \$254,200 for single filers and \$305,000 for married filing jointly filers. Itemized deductions are phased out for up to 80% of total deductions. Deductions excluded from the phase out are medical expenses, investment expenses, non-business casualty and theft loss and gambling losses. In other words, your deductions are limited as your income exceeds the thresholds, but you will still maintain at least 20% of your deductions.

Alternative Minimum Tax (AMT) – attempts to ensure that taxpayers can't avoid taxes by using certain deductions, exemptions, losses and credits and pay at least a minimum amount of tax through an additional tax called the AMT. Taxpayers may have to pay AMT if their taxable income, with certain adjustments, is more than the AMT exemption amount for their filing status. The 2014 thresholds are \$52,800 for single filers and \$82,100 for married filing jointly filers and the phase out ranges are \$117,300-\$328,500 for single filers and \$156,500-\$484,900 for married filing jointly filers.

Personal Exemption – increases to \$3,950 in 2014. However, it is phased out for taxpayers with AGI of \$254,200 for individual filers and \$305,050 for married couples filing jointly and it phases out completely at \$376,700 and \$427,550 for individual and married joint filers respectively.

Additional 0.9% Medicare Tax – is imposed on employee wages or net self-employment income of \$200,000 for single filers and \$250,000 for married filing jointly filers. Employers are required to withhold this tax from your wages once wages exceed \$200,000, but if you are married filing jointly and your combined wages exceed \$250,000 but each spouse's wages are less than \$200,000, your tax liability will reflect the 0.9% Medicare surtax owed on your joint wages in excess of \$250,000. You can choose to make estimated payments to cover this tax or increase your federal income tax withholding.

Education Credits / Deduction – the American Opportunity Credit and Lifetime Learning Credit are tax credits for qualified education expenses such as tuition and certain related expenses required for enrollment or attendance at an eligible postsecondary educational institution. Both credits have modified AGI phase out ranges and specific restrictions, so check on the details of these to see if you qualify.

Student Loan Interest Deduction – of up to \$2,500 of the interest paid on student loans is phased out for modified adjusted gross income of \$55,000 - \$70,000 for single filers and \$110,000 - \$140,000 for married filing jointly filers.

Gone – but not forgotten tax breaks – several tax breaks you may have used in prior years have been eliminated for 2014 including:

- Charitable donations from IRAs ended December 31, 2013
- Above-the-line deduction for qualified education expenses
- Parity for exclusion for employer-provided mass transit and parking benefits
- Exclusion of discharge of principal residence indebtedness from gross income

ESTATE PLANNING

Estate Tax Exemption – was revised to \$5.34 million per person for 2014 and will rise to \$5.43 million in 2015. For those estates exceeding \$5.34 million the federal estate tax rate is 40%. For those living in states with estate taxes such as New York and New Jersey, local estate tax laws will become the dominant driver for estate planning.

Portability Election – The portability election allows estates of married taxpayers to pass along the unused part of their estate tax exemption to their surviving spouse. This provision eliminates the need for spouses to retitle property and create trusts solely to take full advantage of each spouse's exemption amount. The only way to make this election is by properly and timely filing an estate tax return.

Annual exemption for gift taxes - remains at \$14,000 per person in 2014. There is no limit on the number of such gifts you can make, provided each gift is to a different recipient. Amounts gifted above \$14,000 to one recipient will count against your federal lifetime exemption of \$5,340,000 in 2014. However, you can give the following without triggering the gift tax:

- Charitable gifts
- Gifts to a spouse

- Gifts to a political organization for its use
- Gifts of educational expenses. These are unlimited as long as you a direct payment to the educational institution for tuition only. Books, supplies and living expenses do not qualify.
- Gifts of medical expenses. These are also unlimited as long as they are paid directly to the medical facility.

529 Gifting Strategies – If you are planning to contribute to a 529 plan, your gift qualifies for the \$14,000 annual gift exclusion, but if you are considering a larger gift of between \$14,000 and \$70,000 for a single beneficiary, you can elect to treat the contribution as made over a five calendar year period for gift tax purposes. A married couple can gift up to \$140,000. This allows you to utilize as much as \$70,000 in annual exclusions to shelter a larger contribution. The contribution gets out of your estate faster than if you made contributions each year.

Gifting Appreciated Securities – is a smart way to make contributions if you have holdings with capital gains. If you donate securities, the charity gets the full market value of the securities (it doesn't have to pay tax on the gain); you avoid paying the capital gains tax and you still get to deduct the market value of the securities on the donation date. Both sides win.

As we approach the year end, uncompleted financial issues may need to be handled quickly. We are available to answer your questions on:

- Capital gain/loss management
- Tax Planning
- IRA Contributions
- Roth IRA Conversions
- Cash/check requirements

Thank you for being our client. We appreciate your business and hope that we have exceeded your expectations. If a friend or family member could benefit from our help, we hope that you will tell them about Noyes Capital. Your referral and continued business are the highest of compliments.

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2014 tax rates, schedules, and contribution limits

INCOME TAX				
	If taxable income is		The tax is	Of the
	over	but not over		amount over
Married/Filing jointly and qualifying widow(er)s	\$ 0	\$18,150	\$0.00 + 10%	\$ 0
	18,150	73,800	1,815.00 + 15%	18,150
	73,800	148,850	10,162.50 + 25%	73,800
	148,850	226,850	28,925.00 + 28%	148,850
	226,850	405,100	50,765.00 + 33%	226,850
	405,100	457,600	109,587.50 + 35%	405,100
	457,600	—	127,962.50 + 39.6%	457,600
Single	\$ 0	\$9,075	\$0.00 + 10%	\$ 0
	9,075	36,900	907.50 + 15%	9,075
	36,900	89,350	5,081.25 + 25%	36,900
	89,350	186,350	18,193.75 + 28%	89,350
	186,350	405,100	45,353.75 + 33%	186,350
	405,100	406,750	117,541.25 + 35%	405,100
	406,750	—	118,118.75 + 39.6%	406,750
Estates and trusts	\$ 0	\$2,500	\$0.00 + 15%	\$ 0
	2,500	5,800	375.00 + 25%	2,500
	5,800	8,900	1,200.00 + 28%	5,800
	8,900	12,150	2,068.00 + 33%	8,900
	12,150	—	3,140.50 + 39.6%	12,150

CORPORATE TAX				
	If taxable income is		The tax is	Of the
	over	but not over		amount over
\$	0	\$ 50,000	\$ 0 + 15%	\$ 0
	50,000	75,000	7,500 + 25%	50,000
	75,000	100,000	13,750 + 34%	75,000
	100,000	335,000	22,250 + 39%	100,000
	335,000	10,000,000	113,900 + 34%	335,000
	10,000,000	15,000,000	3,400,000 + 35%	10,000,000
	15,000,000	18,333,333	5,150,000 + 38%	15,000,000
	18,333,333	—	35%	0

EMPLOYER RETIREMENT PLANS	
Maximum elective deferral to retirement plans, e.g., 401(k), 403(b)	\$17,500
Catch-up contribution limit for 401(k), 403(b), and 457 plans	5,500
Maximum elective deferral to SIMPLE IRA plans	12,000
Catch-up contribution limit for SIMPLE plans	2,500
Maximum elective deferral to 457 plans of gov't and tax-exempt employers	17,500
Limit on annual additions to defined contribution plans	52,000
Annual compensation threshold requiring SEP contribution	550
Limit on annual additions to SEP plans	52,000
Maximum annual compensation taken into account for contributions	260,000
Annual benefit limit under defined benefit plans	210,000
Limitation used in definition of highly compensated employee	115,000
Health flexible spending account maximum salary reduction contribution	2,500

Sources: IRS and Social Security Administration updates 2013 and 2014.

CAPITAL GAINS TAX		
Tax bracket	Short-term ≤12 months	Long-term >12 months
10%, 15% brackets	Ordinary rate	0%
25%, 28%, 33%, 35% brackets	Ordinary rate	15%
39.6% bracket	Ordinary rate	20%

Additional 3.8% federal Medicare tax applies to individuals on the lesser of net investment income or modified AGI in excess of \$200,000 (single) or \$250,000 (married/filing jointly and qualifying widow(er)s). Also applies to any trust or estate on the lesser of undistributed net income or AGI in excess of the dollar amount at which the estate/trust pays income taxes at the highest rate.

TAX ON QUALIFIED DIVIDENDS	
Tax bracket	Tax
10%, 15% brackets	0%
25%, 28%, 33%, 35% brackets	15%
39.6% bracket	20%

Additional 3.8% federal Medicare tax applies to individuals on the lesser of net investment income or modified AGI in excess of \$200,000 (single) or \$250,000 (married/filing jointly and qualifying widow(er)s). Also applies to any trust or estate on the lesser of undistributed net income or AGI in excess of the dollar amount at which the estate/trust pays income taxes at the highest rate.

KIDDIE TAX	
\$0 to \$1,000	0%
Earned income > \$1,000	Child's tax rate
Unearned income > \$1,000, ≤ \$2,000	Child's tax rate
Unearned income > \$2,000	Generally, the parent's highest marginal tax rate

If a child's earned income represents not more than one half of support needs, the kiddie tax generally also applies to unearned income of children who have not attained age 19 by the close of the year, and children who are full-time students and have not attained age 24 as of the close of the year.

CHILD TAX CREDIT	
\$1,000 per child; phases out \$50 for each \$1,000 of modified AGI over \$110,000 (married/filing jointly) or \$75,000 (single)	

STANDARD DEDUCTIONS		
	Annual	Additional age 65+ or blind
Married/Filing jointly and qualifying widow(er)s	\$12,400	\$1,200
Single	\$6,200	\$1,550

PERSONAL EXEMPTIONS	
	Exemption
Married/Filing jointly and qualifying widow(er)s	\$3,950 each
Single	\$3,950

Phases out beginning with AGI over \$254,200 (single) or \$305,050 (married/filing jointly).

MAXIMUM QUALIFIED LONG-TERM-CARE INSURANCE PREMIUMS ELIGIBLE FOR DEDUCTION

Age	40 or less	>40, ≤50	>50, ≤60	>60, ≤70	Over 70
2014	\$370	\$700	\$1,400	\$3,720	\$4,660

Qualified LTC contract per diem limit: \$330.

TRADITIONAL IRAs

Maximum annual contribution (must be under age 70½)

Lesser of earned income or \$5,500

Up to \$5,500 contribution can also be made for nonworking spouse

Catch-up contributions (Taxpayers age 50 and over): \$1,000

TRADITIONAL IRA DEDUCTIBILITY TABLE

Filing status	Covered by employer's retirement plan	Modified AGI 2013	Modified AGI 2014	Deductibility
Single	No	Any amount	Any amount	Full
	Yes	\$59,000	\$60,000	Full
	Yes	\$59,001-\$68,999	\$60,001-\$69,999	Partial
	Yes	\$69,000 or more	\$70,000 or more	None
Married/ Jointly	Neither spouse covered	Any amount	Any amount	Full
	Both spouses covered	\$95,000 or less \$95,001-\$114,999 \$115,000 or more	\$96,000 or less \$96,001-\$115,999 \$116,000 or more	Full Partial None
Married/ Jointly	Yes, but spouse is not covered	\$95,000 or less \$95,001-\$114,999 \$115,000 or more	\$96,000 or less \$96,001-\$115,999 \$116,000 or more	Full Partial None
	No, but spouse is covered	\$178,000 or less \$178,001-\$187,999 \$188,000 or more	\$181,000 or less \$181,001-\$190,999 \$191,000 or more	Full Partial None

ROTH IRAs

Maximum annual contribution

Lesser of earned income or \$5,500

Up to \$5,500 contribution can also be made for nonworking spouse

Catch-up contributions (Taxpayers age 50 and over): \$1,000

Contribution eligibility

Modified AGI is not more than \$114,000 (single) or \$181,000 (married/filing jointly); phaseouts apply if Modified AGI is \$114,001-\$128,999 (single) or \$181,001-\$190,999 (married/filing jointly)

Deductibility

Contributions to Roth IRAs are not deductible

Conversion eligibility

There is no modified AGI restriction on eligibility for a Roth IRA conversion

BASE AMOUNT OF MODIFIED AGI CAUSING SOCIAL SECURITY BENEFITS TO BE TAXABLE

	50% taxable	85% taxable
Married/Filing jointly	\$32,000	\$44,000
Single	\$25,000	\$34,000

MAXIMUM EARNINGS BEFORE SOCIAL SECURITY BENEFITS ARE REDUCED

Under full retirement age (\$1 withheld for every \$2 above limit)	\$15,480
Full retirement age and over	No limit*

* Interim annual limit of \$41,400 applies for months prior to attaining full retirement age during year individual reaches full retirement age (\$1.00 withheld for every \$3.00 above limit).

This information is general in nature and is not meant as tax or legal advice. Tax laws are subject to change. Please consult your legal or tax advisor.

MAXIMUM COMPENSATION SUBJECT TO FICA TAXES

OASDI (Soc. Sec.) maximum	\$117,000
HI (Medicare) maximum	No limit

OASDI and HI tax rate: 15.3%, self-employed; 7.65%, employees. An additional 0.9% HI tax applies on individuals with wages or self employment income in excess of \$200,000 (single and qualifying widow(er)s) or \$250,000 (married/filing jointly).

DEATH/GIFTS OCCURRING IN 2014*

(subtract applicable credit from calculated tax)

If gift/gross estate is		The tax is	Of the amount over
over	but not over		
\$ 0	\$ 10,000	\$ 0 + 18%	\$ 0
10,000	20,000	1,800 + 20%	10,000
20,000	40,000	3,800 + 22%	20,000
40,000	60,000	8,200 + 24%	40,000
60,000	80,000	13,000 + 26%	60,000
80,000	100,000	18,200 + 28%	80,000
100,000	150,000	23,800 + 30%	100,000
150,000	250,000	38,800 + 32%	150,000
250,000	500,000	70,800 + 34%	250,000
500,000	750,000	155,800 + 37%	500,000
750,000	1,000,000	248,300 + 39%	750,000
1,000,000	—	345,800 + 40%	1,000,000

* Annual gift tax exclusion (2014): Individual, \$14,000; Married electing split gifts, \$28,000.

Combined lifetime gift tax and gross estate tax exemption: \$5,340,000.

GST tax exemption: \$5,340,000.

MODIFIED AGI PHASEOUTS FOR AMERICAN OPPORTUNITY TAX CREDIT

Married/Filing jointly	\$160,001-\$179,999
Others	\$80,001-\$89,999

MODIFIED AGI PHASEOUTS FOR LIFETIME LEARNING CREDIT

Married/Filing jointly	\$108,001-\$127,999
Single	\$54,001-\$63,999

MODIFIED AGI PHASEOUTS FOR EXCLUSION OF U.S. SAVINGS BOND INCOME USED FOR HIGHER EDUCATION EXPENSES

Married/Filing jointly	\$113,950-\$143,950
Others	\$76,000-\$91,000

MODIFIED AGI PHASEOUTS FOR CONTRIBUTIONS TO COVERDELL EDUCATION SAVINGS ACCOUNTS

Maximum contribution: \$2,000 per beneficiary, per year

Married/Filing jointly	\$190,001-\$219,999
Single	\$95,001-\$109,999

2014 AMT EXEMPTIONS

	Exemption
Single	\$52,800
Married/Filing jointly and qualifying widow(er)s	\$82,100
Estates and trusts	\$23,500

Phases out beginning with alternative minimum taxable income over \$117,300 (single) or \$156,500 (married/filing jointly and qualifying widow(er)s) or \$78,250 (estates and trusts). AMT ordinary income rate increases from 26% to 28% for alternative minimum taxable income over \$182,500 (married/filing jointly and qualifying widow(er)s, single, and estates and trusts).