Tax Changes and Opportunities in 2014
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"Uncertainty is an uncomfortable position. But certainty is an absurd one."

French philosopher Voltaire seemed to forecast the lack of closure for the U.S. tax system when he coined this phrase. An interpretation of this quote can reflect the idea that false assurance is worse than none at all, which is consistent with our mindset when we approach personal tax planning and review.

We face a list of open-ended questions caused by the expiration of opportunities in the tax code that has helped clients in the past. Many of these expired benefits may eventually be renewed, but there is no way to be sure. Revisiting several of these will help illustrate where our sights are set for additional opportunities this year.

Sales Tax Deduction: As it stands, 2014 will be the first time in a decade that taxpayers will not be able to deduct sales tax expenses incurred during the year. This option, while often unused by taxpayers because it has an either/or relationship with the state and local income tax deduction, will be sorely missed in states with no income taxes.

Section 179 Deduction: Small business owners and the self-employed are slated to lose an opportunity that for the past two years allowed them to deduct up to $500,000 of expenses incurred on the purchase of capital assets, such as vehicles, office furniture and equipment. This deduction was reduced dollar-for-dollar once the taxpayer exceeded a $2 million threshold for qualifying asset purchases during the calendar year.
This year, they will only be able to deduct up to $25,000 with a $200,000 asset purchase threshold, representing a significantly diminished opportunity.

Direct Charitable Distributions: We wrote in our year-end newsletter about the expiration of a great benefit for retirees and the causes they support. Those aged 70 ½ who qualified for required minimum distributions (RMDs) from their IRAs and 401(k)s were allowed to opt for direct rollover donations of up to $100,000 to charity without increasing their adjusted gross incomes (AGI).

While charitable donations can still lower retirees' overall taxability, those contributions will no longer be excluded from their AGI.

Of course, any or all three of these opportunities could eventually be renewed in 2014.

An Actionable Opportunity

Many investor portfolios delivered impressive returns last year. At the mutual fund level, sometimes we will receive large unanticipated capital gain distributions toward the end of years with exceptionally high returns, and these can contradict our expectations of avoiding booked gains that year. With individual stocks, perhaps we own companies that set off on a steep upward trajectory, leaving us with impressive price appreciation and a large potential gain.

Depending on a taxpayer's overall situation, it might make sense to consider contributing these highly appreciated investments to a charitable giving account. We can avoid taxation on the large capital gain as long as the investment has been held for over a year. This means the performance of investments during the 2013 calendar year could have a potential bearing on your tax and charitable giving decisions as we get closer to the end of 2014.

Not only would the contribution enable taxpayers to avoid realizing a large capital gain, but it would also earn them a charitable giving deduction equal to the investment's fair market value. Charitable giving accounts are flexible because they let us essentially frontload contributions into a fund from which we can write checks to support the causes that matter most to us.