SOLUTIONS

January ◆ 2015

Professionally Speaking

HAPPY RETIREMENT to **Ralph Pelusi**, who has served as Controller and been an integral part of our firm for nearly 14 years. We wish Ralph the best as he enjoys his "golden" years!

CONGRATULATIONS to **Stephanie S. Sommers, CPA,** who will move from her present position as a manager in our Accounting & Auditing department to Controller, where she will continue to serve our organization. Stephanie is a valued member of our team who serves on our Personnel, Professional Development, and Community Service committees. We know she will work hard to fill Ralph's shoes in her new role as Controller.

We also congratulate **Stephanie** on her promotion to president of the Accounting and Financial Women's Alliance (AFWA) Philadelphia Chapter. AFWA is a national professional development association that works to advance its members and the accounting and finance industries.

Our professional staff is involved in many facets of the accounting field. We appreciate **Linda A. Nitterauer, CPA/ABV,** for representing St. Clair CPA Solutions on the PICPA Employee Benefit Plan committee.

Cheryl A. Post, CPA, Glen A. Dymond, CPA, and **John J. Campbell III, CPA,** will present a Tax Update seminar to AFWA members this month. Please contact us if you would like a speaker for your organization or meeting.

Presented by

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Dear Clients and Friends

Estate Planning: Consider a Life Insurance Trust

People generally think of life insurance as a way to protect their family from family hardship. But life insurance can also be a useful estate-planning tool to transfer large sums to your loved ones, free of estate tax and at little or no gift tax cost, when established in a life insurance trust. Life insurance trusts can have significant current and future use in a wide variety of individual circumstances.

Life insurance proceeds are subject to estate tax if the insured owned the policy at death, or transferred it within three years of death. Even if the policy was transferred to another, an insured is considered to still own the policy if, for example, the insured possesses any of the following:

- the right to change the beneficiary,
- the right to borrow against the policy,
- the right to surrender the policy for its cash value,
- or the right to pledge the policy for a loan.

Continued on page 3

Can You Save More for Retirement in 2015?

The contribution limit for many retirement plans increases slightly in 2015, offering many individuals the opportunity to increase their retirement savings. Refer to the chart below to see if you can take advantage of new 2015 higher contribution limits for these retirement plans:

Type of limitation	2014 limit	2015 limit
Elective deferrals to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans	$17,500	$18,000
Annual benefit for defined benefit plans	$210,000	$210,000
Contributions to defined contribution plans	$52,000	$53,000
Contributions to SIMPLEs	$12,000	$12,500
Contributions to IRAs	$5,500	$5,500
Catch-up contributions to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans	$5,500	$6,000
Catch-up contributions to SIMPLEs	$2,500	$3,000
Catch-up contributions to IRAs	$1,000	$1,000

Other factors may affect how much you can contribute (or how much your employer can contribute on your behalf). For example, income-based limits may reduce or even eliminate your ability to take advantage of IRAs.

Please contact us for more information on how to make the most of your tax-advantaged retirement-saving opportunities in 2015.

Estate and Income Tax Planning: Understanding Gift Tax Exclusions

Planning your estate is essential to ensuring the financial security of your loved ones. One of the most common tools used in estate planning—and one that everyone should at least consider—is a program of giving gifts. A carefully planned gift-giving program can reduce the amount of your estate that is subject to tax, while still passing on wealth to the next generation.

The American Taxpayer Relief Act of 2012 (ATRA), passed by Congress on January 1, 2013 and signed into law by President Obama the next day, brought some much-needed certainty to estate and income tax planning. ATRA sets the unified gift and estate tax exclusion at $5 million (indexed for inflation) for 2013 and subsequent years (the basic exclusion amount

Continued on page 3

Tax Extenders

by James F. Knight, CPA, Principal, St. Clair CPA Solutions

On Dec. 19, the president signed into law the Tax Increase Prevention Act of 2014 (TIPA), which extended through Dec. 31, 2014, many valuable tax breaks that had expired at the end of 2013. Here are nine that you may be able to take advantage of when filing your 2014 individual or business tax returns:

1. **Small business stock gains exclusion.** Gains realized on the sale or exchange of qualified small business (QSB) stock acquired in 2014 will be eligible for an exclusion of 100% if the stock has been held for at least five years.
2. **Tax-free IRA distributions to charities.** Taxpayers age 70½ or older can make direct contributions from their IRA to qualified charitable organizations without incurring any income tax on the distribution, up to $100,000 for the 2014 tax year. You can even use the distribution to satisfy a required minimum distribution, if you made the contribution prior to December 31.
3. **Depreciation-related breaks.** Businesses can enjoy larger 2014 deductions if they invested in property that qualifies for enhanced Section 179 expensing, 50% bonus depreciation, and/or accelerated depreciation for qualified leasehold-improvement, restaurant and retail-improvement property, and the property was placed in service by December 31.
4. **State and local sales tax deduction.** Individuals can take an itemized deduction for state and local *sales* taxes instead of for state and local income taxes. This option can be valuable for taxpayers who live in states with no or low income tax rates or purchase major items, such as a car or boat.
5. **Tuition and related expenses deduction.** This above-the-line deduction for qualified higher education expenses may be beneficial to taxpayers who are ineligible for education-related tax *credits*, though income-based limits also apply to the deduction.
6. **Home mortgage debt forgiveness exclusion.** Discharge of indebtedness income from qualified principal residence debt, up to a $2 million limit ($1 million for married taxpayers filing separately), may be excluded from gross income.
7. **The research credit.** This credit (also commonly referred to as the "research and development" or "research and experimentation" credit) rewards businesses that increase their investments in research. The credit, generally equal to a portion of qualified research expenses, is complicated to calculate, but the tax savings can be substantial.
8. **The Work Opportunity credit.** This credit is available for hiring from certain disadvantaged groups, such as food stamp recipients, ex-felons and veterans who have been unemployed for four weeks or more. The maximum credit ranges from $2,400 for most groups to $9,600 for disabled veterans who have been unemployed for six months or more.
9. **The Sec. 45L energy-efficient new home credit.** An eligible construction contractor can claim a credit for each qualified new energy efficient home that the contractor built and that was acquired by a person from the contractor for use as a residence during 2014. The credit equals either $1,000 or $2,000 per unit depending on the projected level of fuel consumption.

If you have questions about whether you can take advantage of any of these extended tax breaks, please contact us for assistance. ■

Estate and Income Tax Planning: Understanding Gift Tax Exclusions, cont.

for an estate of a decedent dying in 2013 is $5,250,000 and for an estate of a decedent dying in 2014 is $5,340,000). The maximum estate and gift tax rate is 40 percent for 2013 and subsequent years.

Absent the immediate financial needs of a gift recipient, the main motivation for making large gifts during your lifetime, rather than waiting to pass on your wealth at death, is to remove the future appreciation from your eventual taxable estate. There is a certain degree of risk in this strategy since your donee receives a tax basis equal to what you paid for the asset, while your heirs will receive a stepped-up tax basis equal to the asset's value at death. As a result, the loss of stepped-up basis and higher future tax rates on capital gains may diminish the benefits of current gift giving. Nevertheless, the consensus for planning purposes is that getting future appreciation out of a taxable estate still trumps worries about any more remote tax issues for your donees, if and when they eventually were to sell the gifted assets.

While large gifts can be subject to rules with a multitude of variables, you can give away up to an "annual exclusion amount" per recipient, per year, free of gift tax and free of any future offset against any exemption amount used to lower future gift or estate taxes. For 2014 and 2015, that annual exclusion amount was and is $14,000.

There is a great deal of flexibility in the types of property that can be transferred. Gifts that qualify for the $14,000 annual exclusion can be made in money, property such as stocks or bonds, or even a life insurance policy, as long as the recipient gets the present right to possess or use the property. The gift may be in trust if the terms of the trust give the recipient the immediate right to the property or income from the property.

You can give up to $28,000 in 2014 and 2015 per recipient per year if you are married and your spouse consents to "split" your gifts. This is useful for spouses who do not own an equal amount of property. The spouse with less property can consent to gifts made by the wealthier spouse, thereby effectively doubling the amount that the wealthier spouse can give away tax-free. To take advantage of "gift splitting," both spouses must be U.S. citizens or residents. The consent must be given on a gift tax return, so a return must be filed even if no gift tax is due. However, a short form gift

Continued on page 4

Estate Planning: Consider a Life Insurance Trust, cont.

In other words, all of these "incidents of ownership" in the policy must be transferred more than three years before death for the proceeds to escape being included in the insured's estate.

If these obstacles are overcome, substantial estate tax savings can be realized by transferring a life insurance policy. But if you give a policy to your spouse who predeceases you, the policy's value will be taxed in your spouse's estate. You probably do not want to give the policy to your children either, unless they are mature and financially secure in their own right.

It is for these reasons that life insurance trusts have become such popular devices. If a life insurance policy and all policy rights are transferred to an irrevocable trust, and the ex-owner survives for the next three years, the policy proceeds can escape estate tax in the surviving spouse's estate as well as the insured's. A trust also provides flexible settlement options. You can have the funds managed professionally, protecting beneficiaries from financial inexperience. The trustee can be given discretion to pay income in varying amounts to beneficiaries depending upon their needs and their tax situations.

If you want to set up a life insurance trust, you also have to decide whether it should be funded or unfunded. If the trust is to be funded, you will have to transfer cash or other property to it to pay the premiums on the policy. If it is unfunded, you or someone else will have to make periodic contributions to it so that the premiums can be paid. As with any trust, planning must be considered for income tax and gift tax consequences.

The tax-saving opportunities of life insurance trusts are so substantial that some lawmakers have called for their elimination. Nevertheless, insurance trusts have survived the current round of budget balancing and deficit reduction, and if there are any future changes in this area, in all likelihood, they would not apply retroactively.

Please call us to determine whether a life insurance trust would be beneficial to your estate plan. If you don't yet have an estate plan, we can help you create one. ■

Estate and Income Tax Planning: Understanding Gift Tax Exclusions, cont.

tax return is available. Don't underestimate how an annual gift-giving plan using the $28,000 split gift exclusion per donee alone can facilitate the tax-efficient transfer of family wealth.

As emphasized in discussing large gifts, above, but equally applicable to smaller gifts, it is important to remember when you make a gift that the recipient must take your basis in the property. This means that if the recipient sells the property, any gain on the sale will be measured using what you paid for the property, not what the property was worth when he or she received it. In contrast, if property is transferred to another through your estate and whether or not estate tax is owed, the recipient can use the value of the property at that time in measuring any gain on the sale of the property. Consequently, choosing the right property to achieve your goals is an important aspect of any gift-giving program.

Another way to further the financial security of others without incurring gift tax is by payment of medical and educational expenses. You can pay an unlimited amount for these expenses tax-free as long as the payments are made directly to the medical services provider or educational institution. The person you benefit does not need to qualify as a dependent for tax purposes. Any medical expenses, however, must not be reimbursed by insurance, to either you or to the beneficiary.

If used properly, a program of gift-giving can benefit everyone involved. Passage of ATRA makes it all the more important for you to consider how a gift giving plan can be advantageous now. If you have any questions about the best way of using gifts as part of your overall financial plan, please call us. ■

Welcome!

WELCOME to our new associates **Jillian Wolf** (in PA office) and **Samantha J. Farrell** (in NJ office). We also welcome college interns **Allison Cox** and **Mary Ann Murtha** to our PA office, and **Zachary Axelrod** and **Justen Carrero** to our NJ office.

In Our Community

October 27, 2014 – Marsha Brown, John Campbell, III, Sophie Kim, Glen Dymond, Amanda Gait, Jamie DiRenzo, Justin Stolte, Maya Sommers, Alan Gubernick, and Stephanie Sommers at Gift of Life Family House.

Our employees helped make the holiday season happier for people in need by adopting two families through **CityTeam Ministries** and the **Kelly Anne Dolan Memorial Fund.** The four children in each family were thrilled to receive new toys and clothing as gifts from our staff, and we were delighted to participate once again and support these two worthy nonprofit organizations.

After reading a shocking article in The Philadelphia Inquirer about the budget deficit at **Anna Lane Lingelbach Elementary,** a Philadelphia School District public school in Germantown, where the principal's entire supply budget was only $160 for the school year, St. Clair CPA Solutions donated more than $1,000 in much-needed classroom supplies to the school. The contribution was highly appreciated by teachers, who had been using their own funds to provide their students with basic supplies.

Thank you to our employees who generously donated their time and money to prepare dinner for families staying at the **Gift of Life Family House** in Philadelphia. Gift of Life Family House provides a comforting residence for families of patients receiving organ donation surgery. Learn how you can help families there at _www.giftoflifefamilyhouse.org_. ■