TAX PLANNING LETTER

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2013 YEAR-END TAX PLANNING FOR INDIVIDUALS

Individual income taxes, whether paid through employer withholding or quarterly estimates, are probably one of your largest annual expenditures. So, just as you would shop around for the best price for food, clothing, or merchandise, you want to consider opportunities to reduce or defer your annual tax obligation. This *Tax Letter* is intended to assist you in that effort.

Your 2013 year-end tax planning begins with a projection of your estimated income, deductions, and tax liability for 2013 and 2014. You should review actual amounts from 2012 to assist you with these projections. To the extent you can control the timing of income and deductions between 2013 and 2014, you should make decisions that will result in the lowest overall tax for both years. If shifting income and deductions between 2013 and 2014 does not reduce your overall tax liability, you should try to defer as much tax liability as possible from 2013 to 2014.

Tax planning for individuals also requires consideration of the tax consequences to any businesses conducted directly or indirectly by the individual owners. Accordingly, we suggest you also review our December *Tax Letter* entitled Year-End Tax Planning for Businesses.

Tax planning and advice necessarily require a careful examination of each taxpayer's facts and circumstances and the application of all relevant provisions to these facts. This *Tax Letter* does not constitute tax advice. Your BDO USA, LLP, or BDO Seidman Alliance* firm client service professional should be consulted in order to determine whether and how any of the tax planning ideas may apply to you.

This *Tax Letter* discusses planning for federal income taxes. However, state income taxes should also be considered. Your BDO USA, LLP, or BDO Seidman Alliance firm client service professional can be consulted regarding state tax matters.

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2013 VERSUS 2014 MARGINAL TAX RATES

Whether you should defer or accelerate income and deductions between 2013 and 2014 depends to a great extent on your projected marginal (highest) tax rate for each year.

The highest marginal tax rate for 2013 and 2014 is nominally 39.6%, but certain provisions that reduce deductions as income increases may also increase the effective marginal tax rates slightly. In addition, an additional 3.8% tax on unearned income of high-income taxpayers applies for taxable years beginning after December 31, 2012. The tax brackets for 2013 and 2013 are shown on the next page of this *Tax Letter* (see p. 3). Projections of your 2013 and 2014 income and deductions are necessary to estimate your marginal tax rate for each year.

SHIFTING INCOME AND DEDUCTIONS INTO THE MOST ADVANTAGEOUS YEAR

You can shift taxable income between 2013 and 2014 by controlling the receipt of income and the payment of deductions. Generally, income should be received in the year with the lower marginal tax rate, while deductible expenses should be paid in the year with the higher marginal rate. If your top tax rate is the same in 2013 and 2014, deferring income into 2014 and accelerating deductions into 2013 will generally produce a tax deferral of up to one year. On the other hand, if you expect your tax rate to be higher in 2014, you may want to accelerate income into 2013 and defer deductions to 2014.

Planning Suggestion: You should consider the time value of money when making a decision to defer income or accelerate deductions. Comparative computations should be made to determine and evaluate the net after-tax result of these financial actions.

Moreover, you should consider whether you expect to be subject to the alternative minimum tax ("AMT") for either or both years (see p. 15).

CONTROLLING INCOME

Income can be accelerated into 2013 or deferred to 2014 by controlling the receipt of various types of income depending on your situation, such as:

FOR BUSINESS OWNERS

- Year-end interest or dividend payments from closely-held corporations;
- Rents and fees for services (delay December billings to defer income); and
- Commissions (close sales in January to defer income).

CAUTION: Income cannot be deferred to 2014 if you constructively receive it in 2013. Constructive receipt occurs when you have the right to receive payment or have received a check for payment even though it has not been deposited. Income also cannot be deferred if you effectively receive the benefit of the income; for example, if you are allowed to pledge a deferred compensation account balance to obtain a loan.

Bonuses for work performed in a particular year can be deferred to the next year if an election is made no later than the end of the year preceding the year the work is to be performed. Accordingly, bonuses for work to be performed in 2014 can be deferred to 2015 if the required election is made before the end of 2013.

An additional 0.9% hospital insurance tax applies to both wages and earnings from self-employment in excess of applicable thresholds ($200,000 for single taxpayers, $250,000 for married taxpayers filing jointly, and $125,000 for married taxpayers filing a separate return). The additional hospital insurance tax is not deductible as part of the section 164(f) self-employment tax deduction.

FOR INVESTORS

- Interest on short-term investments, such as Treasury bills ("T-bills") and certain certificates of deposit that do not permit early withdrawal of the interest without a substantial penalty, is not taxable until maturity.

Example: In November 2013, an investor buys a six-month T-bill. The interest is not taxable until 2014 assuming the T-bill is held to maturity.

- **Interest on U.S. Series EE savings bonds**

Other than not being taxable until the proceeds are received, interest on issued Series EE bonds may be exempt from tax if the proceeds of the bond are used to pay certain educational expenses for yourself or your dependents, and the requirements of "qualified United States savings bonds" are met.

Planning Suggestion: Consider investments that generate interest exempt from the regular income tax. You must, however, compare the tax-exempt yield with the after-tax yield on taxable securities to determine the most advantageous investment. In addition, some tax-exempt interest may be subject to AMT (see p.15) which could lower the after-tax yield.

Other ways to defer income include installment sales and tax-free exchanges of "like-kind" investment or business property.

Planning Suggestion: If you made a 2013 sale that is eligible for installment reporting, you have until the due date of your 2013 return, including extensions, to decide if you do not want to use the installment method and, instead, report the entire gain in 2013.

2013 FEDERAL INCOME TAX RATES

Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estate &Trusts
10%	$0 – $17,850	$0 – $8,925	$0 – $12,750	$0 – $8,925	–
15%	$17,850 – $72,500	$8,925 – $36,250	$12,750 – $48,600	$8,925 – $36,250	$0 – $2,450
25%	$72,500 – $146,400	$36,250 – $87,850	$48,600 – $125,450	$36,250 – $73,200	$2,450 – $5,700
28%	$146,400 – $223,050	$87,850 – $183,250	$125,450 – $203,150	$73,200 – $111,525	$5,700– $8,750
33%	$223,050 – $398,350	$183,250 – $398,350	$203,150 – $398,350	$111,525 – $199,175	$8,750 – $11,950
35%	$398,350 – $450,000	$398,350 – $400,000	$398,350 – $425,000	$199,175 – $225,000	–
39.6%	Over $450,000	Over $400,000	Over $425,000	Over $225,000	Over $11,950

2014 FEDERAL INCOME TAX RATES

Tax Rate	Joint/Surviving Spouse	Single	Head of Household	Married Filing Separately	Estate &Trusts
10%	$0 – $18,150	$0 – $9,075	$0 – $12,950	$0 – $9,075	–
15%	$18,150 – $73,800	$9,075 – $36,900	$12,950 – $49,400	$9,075 – $36,900	$0 – $2,500
25%	$73,800 – $148,850	$36,900 – $89,350	$49,400 – $127,550	$36,900 – $74,425	$2,500 – $5,800
28%	$148,850 – $226,850	$89,350 – $186,350	$127,550 – $206,600	$74,425 – $113,425	$5,800– $8,900
33%	$226,850 – $405,100	$186,350 – $405,100	$206,600 – $405,100	$113,425 – $202,550	$8,900 – $12,150
35%	$405,100 – $457,600	$405,100 – $406,750	$405,100 – $432,200	$202,550 - $228,800	–
39.6%	Over $457,600	Over $406,750	Over $432,200	Over $228,800	Over $12,150

FILING STATUS-SAME SEX MARRIAGE

On June 26, 2013, the United States Supreme Court in United States v. Windsor ruled Sec. 3 of the federal Defense of Marriage Act ("DOMA") was unconstitutional and overturned the prohibition on U.S. federal recognition of same-sex marriage. On August 29, 2013, the Internal Revenue Service issued Revenue Ruling 2013-17 implementing the federal tax aspects of the Supreme Court decision. The ruling holds that same-sex couples, legally married in jurisdictions that recognize their marriages, will be treated as married for all federal tax purposes. The ruling applies even if the married couple resides in a domestic or foreign jurisdiction that does not recognize the validity of same-sex marriage. However, the ruling does not apply to registered domestic partnerships, civil unions, or similar formal relationships under state law. For the taxable year 2013 and going forward, same-sex spouses generally must file using a married filing jointly or separately filing status. For taxable years 2012 and earlier taxable years for which the statute of limitations remains open, same-sex married couples who filed as unmarried individuals may choose (but are not required) to amend their federal tax returns to file as married filing jointly or separately, provided the period of limitations for amending the return has not expired. Please speak with your BDO or Alliance firm client service professional for further guidance.

New for 2013: The Health Care and Education Reconcilisation Act imposes an additional 3.8% tax on net investment income in excess of certain thresholds for taxable years beginning after December 31, 2012. Examples of net investment income include non-business interest, dividends, and capital gains. Net investment income also includes business income from an activity in which the taxpayer does not materially participate, including from partnerships and S corporations. Income excluded from net investment income includes wages, unemployment compensation, self-employment income, Social Security benefits, tax-exempt interest, distributions from certain qualified retirement plans, and non-investment income from businesses in which the taxpayer is a material participant. The 3.8% tax is applicable to taxpayers with modified adjusted gross income for 2013 and 2014 exceeding $250,000 for married couples and surviving spouses, $125,000 for married individuals filing separate returns, and $200,000 for single individuals. The tax is 3.8% of the ***lesser*** of your net investment income or the excess of your modified adjusted gross income over the applicable threshold amount stated above. This tax is also likely to apply to a significant portion of the net investment income of an estate or trust that is otherwise subject to income tax on such income.

Planning Suggestion: In light of the increasing tax rates and the tax on net investment income after December 31, 2012, the allocation of your current investment portfolio may result in a lower after-tax rate of return than a portfolio designed with the consideration of new tax rates (*i.e.,* more allocated to tax-exempt bonds, non-dividend yielding stocks, etc). We strongly encourage you to consult your investment and tax advisors to maximize the after-tax returns if you believe your portfolio may not be currently aligned to account for increased tax exposure.

FOR EMPLOYEES

- **Year-end bonuses and deferred compensation**

CAUTION: The Service will scrutinize deferrals of income between owner-employees and their closely-held corporations. Additionally, if you own more than 50% of a taxable (C) corporation or any stock of an S corporation that reports its income on an accrual method of accounting, the corporation can deduct a year-end bonus to you only when it is paid. Also, any deferred compensation arrangements must comply with the section 409A rules discussed later in this letter. These rules may prevent a reduction of 2013 taxable income by deferral but elections can be made before December 31, 2013, that affect your 2014 taxable income.

Planning Suggestion: Determine if you would like to avoid 2014 taxation of your 2014 compensation and make the appropriate deferral election before the end of 2013.

Planning Suggestion: Evaluate existing deferred compensation arrangements and the stated distribution schedule. If distributions are not scheduled to begin within the next 12 months, consider a second deferral of five additional years.

The tax rates for the hospital insurance portion of the social security tax are:

- 1.45% for employees for 2014;
- 1.45% for employers for 2014;
- 2.9% for self-employed individuals for 2014; and
- An additional 0.9% tax on all wages and self-employment income in excess of $200,000 for single taxpayers, $250,000 for married taxpayers filing jointly, and $125,000 for married taxpayers filing a separate return.

This tax is imposed on all employee compensation and self-employment income, including vested deferred compensation, without any limitation or cap. The income thresholds for the additional 0.9% tax apply first to total wages, with the remainder used by self-employment income.

Planning Suggestion: If you are a shareholder in an S corporation, you might be able to reduce the tax by reducing your salary. However, reasonable compensation must be paid to S corporation shareholders for services rendered to the S corporation.

Planning Suggestion: The tax rate for the old age, survivors, and disability insurance portion of the social security tax is:

- 6.2% for employees for 2014;
- 6.2% for employers for 2014; and
- 12.4% for self-employed individuals for 2014.

Similar to the hospital insurance tax, this tax is imposed on employee compensation and self-employment income, except that this tax is imposed only to the extent of the maximum wage base set by the Social Security Administration ($117,000 for 2014).

- **Distributions from retirement plans**

Distributions from qualified retirement plans can be delayed (see p. 9)

CAUTION: Penalties may be imposed on early, late, or insufficient distributions.

- **IRA distributions**

All distributions from a regular individual retirement account ("IRA") are subject to ordinary income taxes. This tax liability can be delayed until age 70½ at which time you are required to begin taking distributions from your IRA. The ten-percent early withdrawal penalty prevents distributions before age 59½ in most cases. However, if you are over 59½ you can take a penalty-free voluntary distribution if accelerating ordinary taxable income into 2014 is desirable. Penalty-free access to the funds is available prior to age 59½, to the extent the distribution is used to pay medical expenses in excess of ten percent of your adjusted gross income ("AGI") or to pay any health insurance premiums, provided you have received unemployment compensation for at least 12 weeks.

If you are planning to purchase a new home, you may withdraw up to $10,000 from your IRA to pay certain qualified acquisition expenses without having to pay the ten-percent early withdrawal penalty. The distribution is still subject to the regular income tax. The $10,000 withdrawal is a lifetime cap. If a taxpayer or spouse has owned a principal residence in the previous two years, this penalty-free provision is not available. An eligible homebuyer for this purpose can be the owner of the IRA, his or her spouse, child, grandchild, or any ancestor. Also, penalty-free distributions can be made from IRAs for higher education expenses of a taxpayer, spouse, child, or grandchild.

- **Accelerated insurance benefits**

Subject to certain requirements, payments received under a life insurance policy of an individual who is terminally or chronically ill are excluded from gross income. If you sell a life insurance policy to a viatical settlement provider (regularly engaged in the business of purchasing or taking assignments of life insurance policies), these payments also are excluded from gross income.

- **Educational expense exclusion**

An exclusion for employer-provided education benefits for non-graduate and graduate courses up to $5,250 per year is available.

- **Damages received for non-physical injuries and punitive damages**

All amounts received as punitive damages and damages attributable to non-physical injuries are gross income in the year received. Legal fees attributable to non-business income or to employment related unlawful discrimination lawsuits are a deduction in arriving at adjusted gross income, instead of a miscellaneous itemized deduction. Damages received by a spouse, which are attributable to loss of consortium due to physical injuries of the other spouse, are excluded from income.

CONTROLLING DEDUCTIONS

The phase-out of itemized deductions for high income individual taxpayers, called the "Pease" limitation, was reinstated for 2013 and succeeding taxable years. Under the Pease limitation, itemized deductions that would otherwise be allowable are reduced by the ***lesser*** of:

- 3% of the amount of the taxpayer's AGI in excess of a threshold amount (see below); or
- 80% of the itemized deductions otherwise allowable for the taxable year.

For 2014, the Pease limitation AGI thresholds are as follows:

$254,200 for single individuals;
$279,650 for heads of household;
$305,050 for married individuals filing jointly; and
$152,525 for married individuals filing separately.

Deductions that may be accelerated into 2013 or deferred to 2014 include:

- **Charitable contributions (cash or property)**

You must obtain written substantiation, in addition to a canceled check, for all charitable donations.

Charities are required to inform you of the amount of your net contribution, where you receive goods or services in excess of $75 in exchange for your contribution.

If the value of contributed property exceeds $5,000, you must obtain a qualified written appraisal (prior to the due date of your tax return, including extensions), except for publicly-traded securities and non-publicly-traded stock of $10,000 or less.

Planning Suggestion: If you are considering contributing marketable securities to a charity and the securities have declined in value, sell the securities first and then donate the sales proceeds. You will obtain both a capital loss and a charitable contribution deduction.

CAUTION: If you are contemplating the repurchase of the security in the future, you need to consider the wash sale rules discussed (see p. 7).

On the other hand, if the marketable securities or other long-term capital gain property have appreciated in value, you should contribute the property in kind to the charity. By contributing the property in kind, you will avoid taxes on the appreciation and receive a charitable contribution deduction for the property's full fair market value.

If you contribute appreciated, publicly-traded stock (with no restrictions) to a private foundation, you are entitled to a charitable contribution deduction for the full fair market value of the stock.

If you wish to make a significant gift of property to a charitable organization yet retain current income for yourself, a charitable remainder trust may fulfill your needs. A charitable remainder trust is a trust that generates a current charitable deduction for a future contribution to a charity. The trust pays you income annually on the principal in the trust for a specified term or for life. When the term of the trust ends, the trust's assets are distributed to the designated charity. You obtain a current tax deduction when the trust is funded based on the present value of the assets that will pass to the charity when the trust terminates. This accelerates your deduction into the year the trust is funded, while you retain the income from the assets. This method of making a charitable contribution can work very well with appreciated property.

If you volunteer time to a charity, you cannot deduct the value of your time, but you can deduct your out-of-pocket expenses. If you use your automobile in connection with performing charitable work, including driving to and from the organization, you can deduct 14 cents per mile. You must keep a record of the miles.

The allowable deduction for donating an automobile (also, a boat and airplane) is significantly reduced. The deduction for a contribution made to a charity, in which the claimed value exceeds $500, will be dependent on the charity's use of the vehicle. If the charity sells the donated property without having significantly used the vehicle in regularly conducted activities, the taxpayer's deduction will be limited to the amount of the proceeds from the charity's sale. In addition, greater substantiation requirements are also imposed on property contributions. For example, a deduction will be disallowed unless the taxpayer receives written acknowledgement from the charity containing detailed information regarding the vehicle donated, as well as specific information regarding a subsequent sale of the property.

- **Medical expenses**

In addition to medical expenses for doctors, hospitals, prescription medications, and medical insurance premiums, you may be entitled to deduct certain related out-of-pocket expenses such as transportation, lodging (but not meals), and home healthcare expenses. If you use your car for trips to the doctor during 2013, you can deduct 24 cents per mile for travel during 2013 or 23½ cents for travel during 2014. Payments for programs to help you stop smoking and prescription medications to alleviate nicotine withdrawal problems are deductible medical expenses. Uncompensated costs of weight-loss programs and

diet food to treat diseases diagnosed by a physician, including obesity, are also deductible medical expenses.

The deduction is limited to the extent of your medical expenses exceed ten percent of your adjusted gross income for taxpayers under age 65. The AGI floor remains at 7.5% through 2016 for taxpayers over age 65. In the case of married taxpayers filing jointly, only one spouse needs to have attained the age of 65 before the end of the taxable year for the lower 7.5% AGI limit.

Planning Suggestion: If you pay your medical expenses by credit card, the expense is deductible in the year the expense is charged, not when you pay the credit card company. It is important to remember that prepayments for medical services generally are not deductible until the year when the services are actually rendered. Because medical expenses are deductible only to the extent they exceed 7½% or 10% of AGI as discussed above, they should, where possible, be bunched in a year in which they would exceed this AGI limit.

Under certain conditions, if you provide more than half of an individual's support, such as a dependent parent, you can deduct the unreimbursed medical expenses you pay for that individual to the extent all medical expenses exceed the applicable AGI limit. Even if you cannot claim that individual as your dependent because his or her 2014 gross income is $3,950 ($3,900 for 2013) or more, you are still entitled to the medical deduction. Please consult your BDO or Alliance firm client service professional for details.

- **Long-term care insurance and services**

Premiums you pay on a qualified long-term care insurance policy are deductible as a medical expense. The maximum amount of your deduction is determined by your age. The following table sets forth the deductible limits for 2014:

AGE	DEDUCTION LIMITATION
40 or less	$370
41 – 50	$700
51 – 60	$1,400
61 – 70	$3,720
Over 70	$4,660

These limitations are per person, not per return. Thus, a married couple over 70 years old has a combined maximum deduction of $9,320, subject to the applicable AGI limit.

Generally, if your employer pays these premiums, they are not taxable income to you. However, if this benefit is provided as part of a flexible spending account or cafeteria plan arrangement, the premiums are taxable to you. The deduction for health and long-term care insurance premiums paid by a self-employed individual is covered in the chart at the end of this letter titled "Tax Tips for the Self-Employed" (see p. 10).

Medical payments for qualified long-term care services prescribed by a licensed healthcare professional for a chronically ill individual are also deductible as medical expenses.

- **Coverage for adult children**

The Patient Protection and Affordable Care Act (the "ACA") provides that any plan that covers dependents must be extended to provide coverage of adult children until the day the child reaches age 26. The general exclusion from gross income also includes premiums from employer-provided health benefits to any employee's child who has not attained age 27 as of the end of the taxable year is also extended under the ACA.

- **Mortgage interest and points**

Interest as well as points paid on a loan to purchase or improve a principal residence is generally deductible in the year paid. The mortgage loan must be secured by your principal residence. Points paid in connection with refinancing an existing mortgage are not deductible currently but rather must be amortized over the life of the new mortgage. However, if the mortgage is refinanced again, the unamortized points on the old mortgage can be deducted in full. See page 12 for additional information regarding mortgage and other interest payments.

- **Interest paid on qualified education loans**

An "above-the-line" deduction (a deduction to arrive at AGI) is allowed for interest paid on qualified education loans. All student loan interest up to the $2,500 annual limit is deductible. However, in 2014 this deduction is phased out for single individuals with modified AGI of $65,000 to $80,000 ($130,000 to $160,000 for joint returns).

CAUTION: Interest paid to a relative or to an entity (such as a corporation or trust) controlled by you or a relative does not qualify for the deduction.

- **Non-business bad debts**

Non-business bad debts are treated as short-term capital losses when they become totally worthless. To establish worthlessness, you must demonstrate there is no reasonable prospect of recovering the debt. This might include documenting the efforts you made to collect the debt, including correspondence to the debtor to demand payment.

- **401(k) plan contributions**

If your employer (including a tax-exempt organization) has a 401(k) plan or 403(b) plan, as applicable, consider making elective contributions up to the maximum amount of $17,500 or $23,000 if over age 50, especially if you are unable to make contributions to an IRA. You should also consider making after-tax, nondeductible contributions to a 401(k) plan if the plan allows, as future earnings on those contributions will grow tax-deferred. A nondeductible contribution to a Roth IRA can also be considered (see p. 10).

Planning Suggestion: If you are a participant in an employer's qualified plan (which includes a 401(k) plan) and are at least 50 years old, you can elect to make a deductible "catch-up" contribution of $5,500 to the plan. To make a "catch-up" contribution, your employer's plan must be amended to allow such contributions.

- **IRA deductions**

The total allowable annual deduction for IRAs is $5,500, subject to certain AGI limitations if you are an "active participant" in a qualified retirement plan. A non-working spouse may also make an IRA contribution based upon the earned income of his or her spouse. A catch-up provision for individuals age 50 or older applies to increase the deductible limit by $1,000 for IRAs to a total deductible amount of $6,000.

Planning Suggestion: Consider making your full IRA contribution early in the year so that income earned on the contribution can accumulate tax-free for the entire year.

Planning Suggestion: If money is tight, consider the use of credit cards to make tax deductible year-end payments. However, interest paid to a credit card company is not deductible because it is personal interest (see p. 12).

CAUTION: If you choose to accelerate income into 2013 or defer deductions to 2014, make sure your estimated tax payments and withheld taxes are sufficient to avoid 2013 estimated tax penalties (see p. 17).

DEFERRED COMPENSATION

Since the enactment of section 409A by the American Jobs Creation Act of 2004, the deferral or change to a deferral of compensation has become more challenging. Section 409A restricts the timing of distributions from and contributions to deferred compensation plans requiring most individuals to:

1. Make an election to defer compensation in the calendar year prior to the year in which the services related to the compensation are performed; and
2. Limit the timing of distributions based on one (or more) of six prescribed times or events as follows:
   a. separation from service;
   b. disability;
   c. death;
   d. a specified time (or pursuant to a fixed schedule);
   e. change in ownership of the company; or
   f. an unforeseeable emergency.

Plans that may be affected by these rules include salary deferral plans, incentive bonus plans, severance plans, discounted stock options, stock appreciation rights, phantom stock plans, restricted stock unit plans, and salary continuation agreements included in employment contracts.

A violation of these rules requires not only a payment of normal income taxes on all amounts deferred up to the time of the violation (or vesting if later), but an additional 20% tax as well. This punitive tax makes it challenging to accelerate properly deferred compensation into a current taxable year. However, if you wish to delay income taxes on compensation that you will earn in 2014 to a later taxable year, the agreement to defer generally must be executed before December 31, 2013.

CAPITAL GAINS AND LOSSES

The tax rate for net long-term capital gains is 20% for taxpayers otherwise subject to the 39.6% marginal tax on ordinary income. The 15% tax rate continues to apply for taxpayers otherwise subject to the 25% to 35% ordinary marginal tax rate, and a 0% rate applies for taxpayers otherwise subject to the 10% to 15% ordinary tax rate.

CAUTION: The tax law contains rules to prevent converting ordinary income into long-term capital gains. For instance, net long-term capital gains on investment property are excluded in computing the amount of investment interest expense that can be deducted (see p. 12) unless the taxpayer elects to subject those gains to ordinary income tax rates. Additionally, if long-term real property is sold at a gain, the portion of the gain represented by prior depreciation is taxed at a maximum 25% rate.

Capital losses are offset against capital gains. Net capital losses of up to $3,000 can be deducted against ordinary income. Unused capital losses may be carried forward indefinitely and offset against capital gains, and up to $3,000 of ordinary income annually, in future years.

Planning Suggestion: Add up all capital gains and losses you have realized so far this year, plus anticipated year-end capital gain distributions from mutual funds (this amount should be presently available by calling your mutual fund's customer service number). Then review the unrealized gains and losses in your portfolio. Consider selling additional securities to generate gains or losses to maximize tax benefits.

CAUTION: Do not sell a security simply to generate a gain or loss to offset other realized gains or losses. The investment merits of selling any security must also be considered.

Note: Capital gains and losses on publicly-traded securities are recognized on the trade date, not the settlement date. For instance, gains and losses on trades executed on December 31, 2013, are taken into account in computing your 2013 taxable income.

If a security is sold at a loss and substantially the same security is acquired within 30 days before or after the sale, the loss is considered a "wash sale" and is not currently deductible. However,

this nondeductible loss is added to the cost of the purchased security that caused the "wash sale." This basis adjustment will reduce gain, or increase loss, later when that security is sold.

Although present tax law significantly limits a taxpayer's ability to lock in capital gains without realizing the gains for tax purposes, there are still methods by which this can be accomplished. Please consult your BDO or Alliance firm client service professional for further guidance.

QUALIFIED SMALL BUSINESS STOCK

A non-corporate taxpayer can exclude specified percentages (50% or 75%, depending on date of issuance) of any gain realized from the sale of "qualified small business stock" ("QSBS"). To be eligible, the stock must be issued after August 10, 1993, and must have been held for more than five years. The gain eligible for this exclusion cannot exceed the greater of ten times the taxpayer's basis in the stock or $10 million. The includible portion of the gain is subject to a maximum tax rate of 28%, and a portion of the excluded gain is included as a tax preference in determining the taxpayer's liability (if any) for the alternative minimum tax ("AMT").

However, a 100% exclusion is generally available for stock issued after September 27, 2010, and before January 1, 2014. If a 100% exclusion is available, no portion of the gain is subject to the AMT. Because stock must be held for at least five years in order to be eligible for this benefit, the 100% exclusion could not be claimed any earlier than 2015 (in the case of stock issued in 2010).

A non-corporate taxpayer may also elect to exclude the entire gain from the sale of "qualified small business stock" held for more than six months if, within the 60-day period beginning on the date of sale, the taxpayer purchases QSBS having a cost at least equal to the amount realized from the sale. The changes in the long-term capital gain rates did not affect the tax treatment of QSBS sales.

Your BDO or Alliance firm client service professional can be consulted for more information.

DIVIDEND INCOME

Qualified dividend income from domestic corporations and qualified foreign corporations is taxed at the same reduced rates as long-term capital gains for regular tax and AMT purposes.

Planning Suggestion: For taxpayers who are owners of closely-held corporations or a corporation that was converted to an S corporation, there are some planning opportunities available in light of the lower dividend tax rates. Your BDO or Alliance firm client service professional can be consulted for further guidance.

▶TAX-FREE ROLLOVER INTO SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES

An individual may elect to avoid tax on gains from sales of publicly traded securities to the extent the sales proceeds are used to purchase common stock or a partnership interest in a specialized small business investment company licensed by the Small Business Administration under the 1958 Small Business Investment Act. The rollover of sale proceeds must occur within 60 days of the sale. The maximum gain that may be avoided annually for a single individual or a married couple filing jointly is the lesser of $50,000 or $500,000 reduced by any gain avoided in previous years. The limits for married individuals filing separate returns are one-half of these amounts.

▶SALE OF PRINCIPAL RESIDENCE

For sales of a principal residence, up to $500,000 of gain on a joint return ($250,000 on a single or separate return) can be excluded. To be eligible for the exclusion, the residence must have been owned and occupied as your principal residence for at least two of the five years preceding the sale. The exclusion is available each time a principal residence is sold, but only once every two years. Special rules apply in the case of sales of a principal residence after a divorce and sales due to certain unforeseen circumstances. If a taxpayer satisfies only a portion of the two-year ownership and use requirement, the exclusion amount is reduced on a pro rata basis.

Example: Husband and wife file a joint return. They own and use a principal residence for 15 months and then move because of a job transfer. They can exclude up to $312,500 of gain on the sale of the residence (5/8 of the $500,000 exclusion).

Legislation enacted in 2008 modified the provisions affecting the exclusion of the gain. For sales or exchanges after December 31, 2008, a portion of the gain attributable to a period when the residence is not used as a principal residence will not be eligible for the exclusion. Periods of ineligible use prior to January 1, 2009, will not be considered.

Planning Suggestions: If you want to sell your principal residence but are unable to do so because of unfavorable market conditions, you can rent it for up to three years after the date you move out and still qualify for the exclusion. However, any gain attributable to prior depreciation claimed during the rental period will be taxed at a maximum 25% rate.

If you own appreciated rental property that you wish to sell in the future, you should consider moving into the property to convert it to your principal residence. You will need to live in the property for at least two of the five years preceding the sale of the property. As long as you haven't sold another principal residence for the two years prior to the sale, a portion of the gain is excluded. Any gain attributable to prior depreciation claimed will be taxed at a maximum 25% rate.

The sale of a principal residence does not qualify for the exclusion if during the five-year period prior to the sale, the property was acquired in a tax-free like-kind exchange.

INSTALLMENT SALES OF DEPRECIABLE PROPERTY BY NON-DEALERS

A sale of depreciable personal property at a gain generates ordinary income to the extent of any depreciation recapture. This ordinary income is fully taxable in the year of sale even if no sales proceeds are received in that year.

Example: Taxpayer T, in the 39.6% bracket, sells machinery in 2013 for a $1 million note payable in 2014. T's gain is $900,000 ($1 million less $100,000 basis). $800,000 of this gain is due to depreciation recapture. T must report gain as follows:

Example: Taxpayer T, in the 39.6% bracket, sells machinery in 2013 for a $1 million note payable in 2014. T's gain is $900,000 ($1 million less $100,000 basis). $800,000 of this gain is due to depreciation recapture. T must report gain as follows:

2013 ordinary gain:	$800,000
2014 1231/capital gain:	$100,000
Total gain:	$900,000

T must pay tax of $316,800 (39.6% of $800,000) for 2013, even though the note proceeds will not be received until 2014.

Planning Suggestion: If possible, an installment seller of depreciable personal property should structure the transaction to receive enough cash by the due date of the tax return to meet the first year's tax on the installment sale. In the above example, T should negotiate to receive an installment payment of at least $316,800 by April 15, 2014. Please consult your BDO or Alliance firm client service professional for further guidance.

RETIREMENT PLAN DISTRIBUTIONS

Retirement plans have many requirements regarding distributions, but taxpayers can exercise some authority over plan distributions that might facilitate income tax planning.

For instance, funds in a regular IRA can be accessed without additional early distribution penalties anytime after obtaining age 59½.

Therefore, anyone who would benefit from increased ordinary income in 2013 can take a distribution from regular IRAs. Once the IRA owner reaches age 70½, a minimum amount must be distributed from regular IRAs (Roth IRAs are not subject to any minimum distribution requirements) each year. The law allows, but does not require, a small delay of the first required minimum distribution until April 1 of the year after the attainment of age 70½. Therefore, if you reached age 70½ in 2013, you should evaluate the benefit of delayed tax liability on your first distribution compared with the spike in your 2014 taxable income that two distributions in 2014 could cause. Any failure to take the minimum required distributions ("MRDs") before the annual deadline causes the IRA owner to owe a 50% excise tax on the amount that should have been distributed. For 2013, a taxpayer may exclude up to $100,000 from gross income for a qualified charitable distribution made directly from the taxpayer's IRA to a charitable organization. The excluded amount does not qualify for a charitable contribution deduction. A qualified charitable distribution does count toward satisfying a taxpayer's MRDs from a traditional IRA. ***Note:*** The qualified charitable distribution provision expires in 2013 and is not available in 2014 unless extended by Congress.

Example: Individual reached age 70½ in 2013 and is required to make a minimum require distribution for the 2013 calendar year. This distribution could be made during 2013 based on the December 31, 2012, IRA balance but Individual waited until April 1, 2014, to take the required amount. Individual must also take a distribution by December 31, 2014, for the 2014 year based on the December 31, 2013, IRA balance, with certain adjustments. Therefore, individual is taxed on two distributions in 2014 which might result in an overall increase in income taxes.

Participants in qualified pension plans who are not five-percent or more owners of the employer can delay taking distributions out of the plan beyond the minimum required distribution age of 70½ as long as they are still actively employed by the plan sponsor. If you are already receiving benefits but have not yet retired, your plan may (but is not required to) allow you to stop receiving distributions until you retire.

If you received a taxable qualified retirement plan distribution that is not a part of a series of substantially equal payments over a specified period of ten years or more, over the life expectancy of the employee or over the joint life expectancies of the employee and the employee's beneficiary, or does not satisfy the minimum required distribution rules, you can generally avoid immediate taxation by "rolling" the money into a regular IRA or other qualified plan. The rollover rules are utilized most often to move retirement funds between IRAs inasmuch as qualified plans are required to allow participants to elect a direct trustee-to-trustee transfer of distributions and to withhold a 20% income tax on distributions made directly to participants. Participants who elect to receive a plan distribution net of the required withholding will have to restore the funds from other sources in order to complete a tax-free rollover of 100% of the distribution. If 100% of the distribution is indeed rolled over within the 60-day timeframe required by law, the distribution is nontaxable but any overpayment of income taxes will be refunded only as a result of filing a Form 1040 for the year.

TAX TIPS FOR THE SELF-EMPLOYED

- Establish a Simplified Employee Pension ("SEP") Plan by the due date of your 2013 return, including extensions. The contribution to the plan must be made by that due date. For 2013 and 2014, the maximum allowable contribution to a SEP an employee can make independently of an employer is $5,500 ($6,500 if a catch-up contribution). However, the maximum combined deduction for an active participant's elective deferrals and other SEP contributions is $51,000 for 2013 ($52,000 for 2014).
- Alternatively, establish a Keogh Plan in 2013, before December 31. The full contribution to the plan need not be made until the due date of your 2013 return, including extensions.
- Consider placing business assets in service in 2013. For the taxable year 2013, the expense limit is $500,000 and the phase out threshold amount is $2,000,000. If qualified, Section 179 expense allows you to deduct the full cost of depreciable assets in the tax year they are placed in service. Note: The expense limit is reduced to $25,000 and the phase out threshold amount is reduced to $200,000 for 2014 and succeeding taxable years.
- The 2010 Tax Relief Act extended the bonus depreciation provision through December 31, 2013. The percentage for bonus depreciation is 50% for property placed in service during 2013. The bonus depreciation provision is scheduled to expire on January 1, 2014.*
- For taxable years 2013 and 2014, a taxpayer can deduct start-up expenditures up to $5,000 with the phase out threshold at $50,000.
- A self-employed individual generally may deduct 50% of the Old Age, Survivors and Disability tax paid plus 50% of Hospital Insurance tax paid as a business expense, not taking into account the additional 0.9% Hospital Insurance tax on high-income taxpayers for this purpose. This deduction may be claimed in addition to itemized deductions or the standard deduction.
- For 2013, 100% of medical and long-term care insurance premiums, subject to the limitations set forth on page 6 of the Tax Letter, paid by a self-employed person are deductible from gross income to arrive at AGI.
- Effective for payments made on or after March 30, 2010, the Affordable Care Act allows the self-employed health insurance deduction to include an adult child who has not attained the age of 27 before the end of the taxpayer's taxable year.

* See our 2013 *Year-End Tax Planning for Businesses* for further information.

Example: Employee E retires at age 54 on January 1, 2013, and is entitled to receive a $100,000 lump-sum distribution from his employer's profit-sharing plan. E does not elect a direct trustee-to-trustee transfer of his $100,000 to an IRA. At the time of the distribution, the employer must withhold $20,000 in federal income taxes from the distribution. E receives the remaining $80,000 on January 10, 2013, and transfers it to an IRA on January 11, 2013.

E will have $20,000 of gross income, unless he obtains $20,000 from another source and transfers it to the IRA by March 11, 2013 (within 60 days of receiving the distribution). The $20,000 will be refunded only after taking into account of all items reported on E's Form 1040 for 2013. In addition, if E fails to transfer the additional $20,000 to an IRA, E will be liable for the ten-percent early withdrawal penalty on the $20,000 because E was under age 55 (the minimum age for receiving penalty-free distributions upon a separation from service).

ROTH IRAs AND EDUCATION IRAs

ROTH IRAs

The adjusted gross income limitation that prevented many taxpayers from converting traditional IRAs to Roth IRAs is eliminated.

Prior to discussing conversions of regular IRAs and eligible employer plans we will first discuss regular annual contributions to Roth IRAs and the characteristics of a Roth IRA. Taxpayers with income under certain income limits are permitted to make contributions to a Roth IRA. Unlike regular IRAs, where contributions are deductible and later distributions are taxable, contributions to Roth IRAs are not deductible and later "qualified" distributions are not taxable. Qualified distributions are distributions made five or more years after the Roth IRA is established, provided the distribution is made after the account owner is at least age 59½, has died or become disabled, or uses the money for a first-time home purchase, subject to a $10,000 lifetime cap. If the distribution is not qualified, a portion of the distribution may be included in gross income and may be subject to the ten-percent early withdrawal penalty. The penalty applies on the amount of the distribution that exceeds the taxpayer's contributions to the Roth IRA. Roth IRAs are not subject to the MRD rules that apply to regular IRAs when the owner reaches age 70½.

For 2013 and 2014, taxpayers can contribute up to $5,500 to a Roth IRA (as long as you have compensation for the year at least equal to the contributed amount). Taxpayers age 50 or older can make additional contributions of $1,000. Thus, the limit is $6,500 a year for people who will be age 50 (or older) in the applicable taxable year. However, the maximum contribution allowance must be reduced by any other contributions (deductible or nondeductible) the taxpayer makes to IRAs.

For single taxpayers, if 2014 modified adjusted gross income is between $114,000 and $129,000 ($112,000 and $127,000 for 2013), the $5,500 maximum contribution is phased out. Modified AGI in excess of $129,000 ($127,000 for 2013) prevents a contribution to a Roth IRA for a single taxpayer. For married taxpayers filing jointly, no contribution can be made if AGI is $191,000 ($188,000 for 2013) or more, and the $5,500 maximum (per spouse) is phased out for AGIs between $181,000 and $191,000 ($178,000 to $188,000 for 2013). For married taxpayers filing separately, the allowable contribution is phased out for AGIs between $0 and $10,000.

As with regular IRAs, contributions to a Roth IRA may be made as late as the due date for filing your income tax return, excluding extensions. Thus, Roth IRA contributions may be made by most individuals for 2013 until April 15, 2014. Unlike regular IRAs, contributions to a Roth IRA may be made even if the taxpayer is over age 70½, and the taxpayer or spouse has earned income at least equal to the amount of the contribution.

If a taxpayer converts a regular IRA or eligible employer plan into a Roth IRA, the amount that must be included in the distributee's gross income is the amount that would have been includible in gross income had the distribution not been part of a qualified rollover contribution. The entire taxable amount from a 2013 conversion must be recognized on the taxpayer's 2013 income tax return. The converted amount is not subject to the ten-percent early withdrawal penalty, provided no distributions are made from the account during the five-year period after the initial conversion.

Planning Suggestion: If you are not eligible to make a Roth IRA contribution due to an income limitation, consider making a nondeductible contribution to a traditional IRA and then converting the entire balance to a Roth IRA. The conversion would be a fully nontaxable event if the conversion takes place immediately because the taxpayer would have basis in the full amount of conversion.

Planning Suggestion: It may be beneficial to convert an existing IRA into a Roth IRA even though income will be accelerated and taxes will have to be paid. The advisability of converting depends on various factors, including the age of the taxpayer, current tax bracket, whether the taxpayer has funds from other sources to pay the income taxes on the accelerated income, and whether the taxpayer intends to withdraw funds from the account after age 59½, or after 70½. Two of the advantages of converting a regular IRA or eligible employer plan into a Roth IRA are avoiding the minimum distribution rules and avoiding income taxes on distributions after death to the beneficiary of the Roth IRA. Any decision to convert should also consider the estate tax effects.

Planning Suggestion: You may want to consider converting all or a portion of your traditional IRA to a Roth IRA if you have a net operating loss ("NOL"). You may be able to make a conversion without creating taxable income and make use of your NOL, especially if the NOL carryforward is due to expire soon.

Additional Planning: Regular IRAs can be converted to Roth IRAs. Roth IRA conversions for a year must be completed by December 31 of that year. You have until the extended due date of your return for the year of the conversion to recharacterize your Roth IRA back to a traditional IRA. You will treat the conversion as if it had never happened by recharacterizing it.

CAUTION: Assuming that you do not have an NOL or other tax attribute to completely offset the income on the conversion, you are going to need cash outside the IRA to pay tax on the conversion.

Example (1): Individual D makes a $5,000 contribution to a regular IRA in November 2013. D files his 2013 tax return on April 15, 2014. Immediately before filing the 2013 tax return, when the value of the IRA has increased to $5,500, D recharacterizes the account as a Roth IRA. D will be considered to have made a $5,000 contribution to a Roth IRA for 2013. The $500 of appreciation is not treated as a contribution to the Roth IRA.

Example (2): Individual E converts a regular IRA to a Roth IRA in August 2013, when the value of the account is $100,000. On December 18, 2013, the value of the account is $70,000. E may recharacterize the Roth IRA back to a regular IRA on December 18, 2013 (the election to recharacterize generally can be made as late as October 15, 2013) and it will be treated as if the original conversion in August had not occurred. E can then convert back to a Roth IRA by the later of the next taxable year or after 30 days. Thus, 31 days later, on January 18, 2014, E (assuming E otherwise qualifies) can convert the regular IRA to a Roth IRA based on the then values.

These rules are complicated but may provide tax-planning opportunities if securities held in IRAs fluctuate significantly within short periods of time. Your BDO or Alliance firm client service professional can help you with your Roth IRA questions.

COVERDELL EDUCATION SAVINGS ACCOUNTS (EDUCATION IRAs)

Education IRAs may be established to help meet the cost of education for certain individuals. For 2013, annual, nondeductible contributions to an education IRA are limited to $2,000 per beneficiary and may not be made after the beneficiary reaches age 18. Contributions cannot be made prior to the child's birth. Contributions must be made by the due date of the return without extension. Only eligible donors within certain income limits can make contributions to education IRAs. Eligibility is phased out for single donors with AGI between $95,000

and $110,000, and married donors filing jointly with AGI between $190,000 and $220,000.

Distributions from an education IRA are not subject to tax to the extent the distributions do not exceed qualified education expenses. Qualified education expenses include elementary and secondary school expenses. In the year amounts are distributed from an education IRA, the beneficiary is also eligible for an American Opportunity Tax (Hope) Credit or Lifetime Learning Credit (see p. 19) provided the same expenses are not used for each credit. Education IRAs can be rolled over, before the beneficiary reaches age 30, to benefit another person in the same family. If the beneficiary does not use the funds for qualified education expenses by age 30, the money must be withdrawn and will be subject to tax and penalty on the portion attributable to the earnings.

MOVING EXPENSES

Deductible moving expenses are limited to the cost of moving household goods and personal effects, plus traveling (including lodging but not meals) from your old residence to your new residence. To be deductible, a taxpayer must satisfy a distance test, a length-of-employment test and a commencement-of-work test.

Moving expenses can be deducted “above-the-line” in computing AGI instead of as miscellaneous itemized deductions. Thus, these expenses are not subject to the various limitations applicable to itemized deductions and can be deducted in addition to itemized deductions or the standard deduction. Also, deductible moving expenses reduce AGI for purposes of calculating the various AGI-based limitations.

INTEREST EXPENSE

PERSONAL INTEREST

Interest is not deductible on tax deficiencies, car loans, personal credit card balances, student loans (except for taxpayers eligible for the above-the-line deduction for interest paid on qualified education loans), or other personal debts.

HOME MORTGAGE INTEREST

A full regular tax deduction is allowed for:

- Interest on debt used to acquire, construct, or improve a principal or secondary residence to the extent this debt does not exceed $1 million.
- Other mortgage interest on a principal or secondary residence to the extent the mortgage does not exceed $100,000. The loan proceeds may be used for any purpose, except to purchase tax-exempt obligations.

These $1 million and $100,000 limits are cut in half for a married taxpayer filing a separate return.

CAUTION: These debts must be secured by the principal or secondary residence. Thus, your home is at risk if the loan is not repaid.

A residence includes a house, condominium, mobile home, house trailer, or boat containing sleeping space, commode, and cooking facilities. If you own more than two residences, you can annually elect which one will be your secondary residence.

Planning Suggestion: Since there is no deduction for personal interest, consider replacing personal debt with a home-equity loan of up to $100,000 to obtain a deduction for the interest.

These rules apply to interest on debt incurred after October 13, 1987. Interest on mortgages established prior to October 14, 1987, is generally subject to less restrictive rules.

INVESTMENT INTEREST EXPENSE

If you want to add to your investment portfolio through borrowing, consider borrowing from your stockbroker through a margin loan. The interest paid is investment interest expense and will be deductible to the extent of your net investment income (dividends, interest, etc.). Investment interest expense in excess of investment income may be carried forward indefinitely.

Planning Suggestion: Net long-term capital gain (long-term gains over short-term losses) and any qualified dividend income are not included as investment income for purposes of determining how much investment interest expense is deductible, unless you elect to subject the capital gain and dividend income to ordinary income rates.

You should consider switching your investments to those types of investments generating taxable investment income to absorb any excess investment interest expense.

Interest expense, to the extent that it is related to tax-exempt income, is not deductible. Interest expense relating to a passive activity, such as a limited partnership investment, is subject to the passive loss limitations on deductibility (see p. 14).

ALLOCATION RULES

Interest payments are generally allocated among the various categories–personal interest, home mortgage interest, investment interest, etc.–based on the ultimate use of the loan proceeds.

Example: An individual borrows $25,000 on margin and uses the proceeds to purchase an automobile for personal use. The interest expense is treated as personal interest.

The Service has issued complex regulations for determining how these allocations are made, which may require maintaining separate bank

accounts or other records. Your BDO or Alliance firm client service professional can help you maximize tax deductions for your interest payments.

MISCELLANEOUS DEDUCTIONS

Unreimbursed employee business expenses, investment expenses, personal tax advice and preparation fees, and most other miscellaneous itemized deductions, are deductible only if they exceed two percent of AGI.

Planning Suggestion: Consider bunching miscellaneous itemized deductions into a year in which the two-percent-of-AGI limit will be exceeded. However, not all prepaid expenses, such as multi-year subscriptions to financial periodicals, are currently deductible.

BUSINESS MEALS AND ENTERTAINMENT

Only 50% of an employee's unreimbursed cost of business meals and entertainment qualifies as a miscellaneous deduction. Club dues generally are not deductible; however, dues paid to the following types of organizations generally continue to be deductible as business expenses:

- Professional associations;
- Civic or public service organizations, such as Kiwanis, Lions, Rotary, or Civitan; and
- Business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards.

LEASED AUTOMOBILES

In prior years, the Service permitted salaried employees with unreimbursed business expenses as well as self-employed sole proprietors, partners, and S corporation shareholders to deduct only actual expenses incurred with respect to leased automobiles. Now, the Service allows taxpayers, beginning in the first year a leased automobile is placed in service, to use the standard mileage rate for business activity (56.5 cents per mile for travel during 2013 and 56 cents for 2014).

Planning Suggestion: Consider claiming the standard mileage rate for leased automobiles. There is less recordkeeping, and the standard mileage rate may result in a larger deduction.

CHANGES TO THE FOREIGN EARNED INCOME EXCLUSION AND HOUSING ALLOWANCE

For United States citizens working abroad, beginning in 2006, there are three changes made to the foreign earned income exclusion and housing allowance. They are as follows:

- The income exclusion is indexed for inflation starting in 2006 (rather than 2013).
- The base housing amount used in calculating the foreign housing cost exclusion is 16% of the amount of the foreign earned income exclusion limitation. Reasonable foreign housing expenses in excess of the base housing amount remain excluded from gross income, but the amount of the exclusion is limited to 30% of the taxpayer's foreign earned income exclusion.
- Income excluded as either foreign earned income or as a housing allowance is included for purposes of determining the marginal tax rates applicable to non-excluded income.

The foreign earned income exclusion for 2014 is $99,200.

STANDARD DEDUCTION

The 2013 standard deduction is:	
Filing Status	**Amount**
Single	$6,100
Married filing joint return and qualifying surviving spouse with dependent child	12,200
Married filing separate return	6,100
Head of household	8,950

The 2014 standard deduction is:	
Filing Status	**Amount**
Single	$6,200
Married filing joint return and qualifying surviving spouse with dependent child	12,400
Married filing separate return	6,200
Head of household	9,100

An additional $1,200 standard deduction may be claimed by a married taxpayer ($1,550 by a single taxpayer) who is at least 65 years old or blind. A total additional deduction of $2,400 ($3,100 by a single taxpayer) standard deduction can be claimed if the taxpayer is at least 65 years old and blind.

Planning Suggestion: A taxpayer benefits from itemizing deductions only if the deductions exceed the standard deduction. If your itemized deductions fluctuate from year to year, consider bunching your itemized deductions in one year and claiming the standard deduction in other years.

PERSONAL EXEMPTIONS

For 2013, a $3,900 deduction is allowed for each personal exemption. The personal exemption is subject to an AGI phaseout as follows:

Married filing joint returns and surviving spouses	$300,000 – $422,501 (complete phaseout)
Heads of Households	$275,000 – $397,501 (complete phaseout)
Single Individuals	$250,000 – $372,501 (complete phaseout)
Married filing separate	$150,000 – $211,251 (complete phaseout)

For 2014, a $3,950 deduction is allowed for each personal exemption. The personal exemption is subject to an AGI phaseout as follows:

Married filing joint returns and surviving spouses	$305,050 – $427,551 (complete phaseout)
Heads of Households	$279,650 – $402,151 (complete phaseout)
Single Individuals	$254,200 – $376,701 (complete phaseout)
Married filing separate	$152,525 – $213,776 (complete phaseout)

A child cannot claim an exemption on his or her return or qualify for a higher education credit if the child's parents claim a dependency exemption for the child on their return.

Planning Suggestion: If you pay college tuition for your child but you are ineligible for the American Opportunity Tax (Hope) Credit or Lifetime Learning Credit because your AGI is more than the allowed income limitation (see p. 19), it may be beneficial to forgo claiming an exemption for your child so that your child can claim the credit on his or her return.

UNIFORM DEFINITION OF "CHILD"

There is a uniform definition of qualifying child for the purposes of determining the dependency exemption, the child credit, the earned income credit, the dependent care credit, and head of household filing status for 2004 and later. A child is determined to be a qualifying child of a taxpayer if a residency test, a relationship test, and an age test are met. Pre-2004 law regarding support and gross income tests in determining qualification as a dependent generally does not apply if the child satisfies the uniform definition.

PASSIVE ACTIVITIES, RENTAL AND VACATION HOMES

Losses from passive activities (which, as discussed below, generally include the rental of real estate) are deductible only against passive income. Passive losses cannot be used to reduce non-passive income, such as compensation, dividends, or interest. Similarly, credits from passive activities can be used only to offset the regular tax liability allocable to passive activities. Unused passive losses are carried over to future years and can be used to offset future passive income. Any remaining loss is deductible when the activity, which gave rise to the passive loss, is disposed of in a transaction in which gain or loss is recognized.

A passive activity is one in which the taxpayer does not materially participate. Material participation is involvement in operations on a regular, continuous, and substantial basis. You are considered to materially participate in an activity if, for example:

- You participate in the activity for more than 500 hours in the taxable year.
- Your participation for the taxable year was substantially all of the participation in the activity.
- You participated for more than 100 hours during the taxable year, and you participated at least as much as any other individual for that year.

In determining material participation, a spouse's participation can be taken into account. Limited partners are conclusively presumed not to materially participate in the partnership's activity.

Rental activities are generally considered passive. However, there are two significant exceptions to this rule (see "Rental Real Estate" below).

A working interest in an oil or gas property is not treated as a passive activity, regardless of whether the owner materially participates, unless liability is limited (such as in the case of a limited partner or S corporation shareholder).

Planning Suggestion: Avoid investments producing passive losses unless there is an overriding economic reason to make the investment. If you already have such investments, consider acquiring an investment that generates passive income. If you own a corporation other than an S corporation or personal service corporation, consider transferring investments that generate passive losses to the corporation. The corporation can deduct passive losses against its active business income, but not against its dividends, interest, or other portfolio income.

RENTAL REAL ESTATE

For real estate professionals, rental real estate activities are not subject to the passive loss rules if, during a taxable year:

- More than 50% of the taxpayer's personal services are performed in real property businesses, and
- More than 750 hours are spent in real property businesses.

For both of these tests, the taxpayer must materially participate in the real property businesses. If a joint return is filed, these two tests must be satisfied by the same spouse.

Services performed as an employee are ignored unless the employee owns more than five percent of the employer.

A closely-held C corporation that is generally subject to the passive loss rules will satisfy these tests if more than 50% of its gross receipts are derived from real property businesses in which the corporation materially participates. Real property businesses are those involving real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage.

For non-real estate professionals, another exception to the passive loss limitations exists for rental real estate activities in which the taxpayer "actively" participates. This requires the taxpayer to own at least a ten-percent interest in the activity. If the taxpayer actively participates in the activity, the taxpayer can offset up to $25,000 of losses and credits from the activity against non-passive income, subject to an AGI phaseout.

Active participation does not require regular, continuous, and substantial involvement in operations as long as the taxpayer participates in a significant and bona fide way by, for example:

- Arranging for others to provide services such as cleaning; or
- Making management decisions, which include approving new tenants, deciding rental terms, and approving repairs and capital expenditures.

The $25,000 allowance begins to phase out when the taxpayer's AGI exceeds $100,000 and is completely eliminated when AGI reaches $150,000. In that event, the regular passive loss rules determine the amount of any deductible loss. The $25,000 allowance and AGI thresholds are cut in half for a married taxpayer who files separately and does not live with his or her spouse. However, there is no $25,000 allowance if a married individual files separately and lives with his or her spouse at any time during the taxable year.

Planning Suggestion: If your AGI is approaching $100,000, consider shifting income to 2014 to obtain a full $25,000 rental real estate loss for 2013. Consider filing a refund claim if rental real estate losses produce a net operating loss that may be carried back to prior taxable years.

If you think you may be affected by the passive loss rules, you should speak with your BDO or Alliance firm client service professional. In certain cases with proper planning, the adverse effect of these rules may be minimized.

VACATION HOMES

Expenses of a rental property are deductible, even if they exceed gross rents and produce a loss. However, the current deduction of such a loss may be restricted due to the passive activity rules discussed above. A vacation home is treated as rental property if personal use during the year does not exceed the greater of:

- 14 days, or
- Ten percent of the number of days the home is rented at a fair rental value.

If personal use exceeds these limits, the property is considered to be a residence. In that event, the deductibility of expenses is limited, although property taxes, mortgage interest, and casualty losses can generally be deducted currently.

Planning Suggestion: If you rent your home for less than 15 days during the year, the total rental income you receive is not subject to income tax.

DISPOSITION OF LEASEHOLD IMPROVEMENTS

When a lessor disposes of leasehold improvements upon termination of a lease, the lessor can generally write off the adjusted basis of those improvements.

Planning Suggestion: If you have leases terminating early in 2014 where there is substantial remaining basis in the leasehold improvements, it may make sense to provide the lessees with an incentive to leave before the end of 2013 so that you can write off the remaining basis in the applicable leasehold improvements before the end of 2013.

ALTERNATIVE MINIMUM TAX (AMT)

A taxpayer must pay either the regular income tax or the AMT, whichever is higher. The AMT tax system is parallel to the regular tax, but it treats some items of income and deduction differently.

There are applicable exemptions for the AMT. The AMT exemption was indexed to inflation with the passage of the American Taxpayer Relief Act of 2012. The established exemption amounts for 2013 are $51,900 for unmarried individuals and individuals claiming the head of household status, $80,800 for married individuals filing jointly and surviving spouses, and $40,400 for married individuals filing separately. The exemption for estates and trusts is $23,100.

The established exemption amounts for 2014 are $52,800 for unmarried individuals and individuals claiming the head of household status, $82,100 for married individuals filing jointly and surviving spouses, and $41,050 for married individuals filing separately. The exemption for estates and trusts is $23,500.

AMT paid on "timing" preferences and adjustments (such as accelerated depreciation) for prior years is allowed as a credit against a later year's regular income tax to the extent it exceeds the later year's

tentative AMT. Therefore, this AMT credit cannot reduce the regular income tax below the AMT for that later year.

Example: T's 2012 AMT attributable to timing preferences was $80,000. T's 2013 regular tax is $100,000, and T's tentative AMT is $70,000. T may reduce the regular tax by $30,000. Generally, T's remaining AMT credit of $50,000 ($80,000 less $30,000) may be carried forward indefinitely. No carryback is permitted.

Planning Suggestion: In computing the AMT, a taxpayer may claim depreciation for property placed in service in 2001 and thereafter, using the 150% declining balance method (switching to straight-line) and using the same recovery periods as regular tax. This may justify a major acquisition of property before the end of 2013.

A full discussion of the AMT is beyond the scope of this letter. AMT considerations are exceedingly complex and require careful planning. Please consult your BDO or Alliance firm client service professional prior to year-end to discuss how the AMT might affect you.

STOCK OPTIONS

INCENTIVE STOCK OPTIONS

An incentive stock option ("ISO") is an option issued to an employee that allows all increase in value to be subject to the 20% long-term capital gain treatment if the taxpayer disposes of the option shares more than two years after the date the option is granted and more than one year after the date the option shares are purchased. Also, the employee must continue to be an employee until at least three months before the option is exercised. If these rules are not met, the gains from ISOs are ordinary income subject to federal tax rates as high as 39.6%.

However, there is a hidden cost to obtaining long-term capital gain treatment from an ISO. The "spread" (the difference between the fair market value of the shares on the purchase date and the option price paid for the shares) must be added into the taxpayer's AMT calculation for the year the options are exercised. Any AMT attributable to the ISO spread generally is allowed as an AMT credit carryforward to offset regular taxes owed in future years. Thus, any AMT attributable to the ISO is effectively a prepayment of tax, not additional tax.

Planning Suggestion: If you are planning to exercise ISOs before December 31, 2013, consider deferring the exercise until after that date and sometime before April 15, 2014. Any AMT on such exercise would likely not be due until April 15, 2015, after the required one-year holding period for the stock has been met. At that time the option shares can be sold at long-term capital gains rates, with a portion of the proceeds used to pay the 2014 AMT liability.

If you have exercised an ISO in 2013 and the value of the stock has decreased, consider a sale before the end of 2013. This action should reduce the AMT effect. The sale must be made to a non-family member (or to an entity not considered to be related to the taxpayer under applicable rules) and the stock cannot be repurchased (even through an exercise of a different option or new compensatory award) for at least 30 days.

NONQUALIFIED STOCK OPTIONS

When a taxpayer exercises a non-qualified stock option ("NQSO") that does not have a readily ascertainable fair market value at the time of issuance (generally the case where the option or the option stock is not publicly traded), the spread (the difference between the stock's fair market value and option price) is taxed as compensation income. When the taxpayer sells the NQSO stock, any subsequent appreciation is taxed as long- or short-term capital gain depending upon the stock's holding period. Because the spread is taxed as ordinary income, taxpayers in the highest marginal federal tax bracket are taxed at 39.6%.

Planning Suggestion: If a taxpayer expects to be subject to AMT for 2013 and no AMT credit carryforward is expected, the taxpayer should consider exercising NQSOs. The accelerated ordinary income may be taxed at a maximum federal rate of 28% (the AMT marginal rate) as opposed to 39.6%. In addition, all future appreciation is capital gain. When making this decision, the potential tax savings should be compared with the opportunity cost of accelerating the income taking into account the time value of money.

CHILDREN'S TAXES

Unearned income of a child under age 18, exceeding $2,000 for 2013 and 2014, is taxed at the parents' top rate rather than at the child's rate ("kiddie tax"). Earned (compensation) income received by a child under age 18 is taxed at the child's rate.

For 2013, the kiddie tax will also apply to full-time students who have not attained the age of 24 by the end of the taxable year and non-full-time students who have not attained the age of 19 by the end of the taxable year, but in either case, only if the child's earned income does not exceed one-half of the amount of the child's support.

A child with earned income may claim a standard deduction up to $6,200 for 2014 and may be eligible for the $5,500 deductible IRA contribution. Therefore, the child may earn $11,700 without paying federal income tax. The child should also consider a contribution to a nondeductible Roth IRA.

Planning Suggestion: If you own a business, consider hiring and paying a salary to your child. This income will be taxed at the child's rates, and the payment will be deductible by your business. This technique can be used to fund a college education. Of course, the child must perform services to earn the compensation, and the compensation must be reasonable for the services provided.

If the child is 18 or over, this compensation will be subject to social security tax. It will also be subject to federal unemployment insurance

tax if the child is 21 or older. The child's compensation could also be subject to state and local income and payroll taxes.

A child under age 18 is not required to file a tax return if the child only has interest and dividend income up to $1,000, has not made estimated payments and is not subject to backup withholding. However, the parents must include the child's income exceeding $2,000 on their tax return.

CAUTION: A child under 18 who has capital gains or earned income must file his or her own tax return. Estimated taxes may have to be paid during the year if withholding taxes are not sufficient to cover the child's tax liability.

A child who can be claimed as a dependent on his or her parents' return cannot claim an exemption on his or her own return. However, the child is allowed a standard deduction equal to the ***greater*** of (1) $1,000 or (2) the sum of $350 and the child's earned income up to $6,200 for 2014.

If the child is age 18 or older (24 or older if a full-time student, but only if the child's earned income does not exceed one-half of the child's support), income exceeding the standard deduction or itemized deductions will be taxed at the child's rates.

Planning Suggestion: Consider making gifts of growth stock or Series EE bonds (which can defer taxation of the interest until maturity) to a child under age 18 (or 24, if appropriate). These investments can be converted to investments producing current income after the child reaches 18 (or 24, if appropriate). The resulting income will be taxed at the child's rates rather than the parents' top rate. Further, parents in the higher tax brackets should consider making gifts of income-producing property to a child who is 18 (or 24, if appropriate) or older to take advantage of the child's lower tax bracket (see "Year-End Gifts" (see p. 18).

Reminder: Your income tax return must report social security numbers for all children whom you claim as dependents. A social security number can be obtained by filing an application on Form SS-5 with your local Social Security Administration office.

If you claim a dependent care credit, you must report the service provider's social security or employer identification number on your tax return. You should use IRS Form W-10 to obtain this number from the provider.

ADOPTION EXPENSES

Up to $12,970 for 2013 ($13,190 for 2014) of eligible adoption expenses are allowed to be claimed as a nonrefundable credit. The credit limitation is the same for special-needs children (children that cannot or should not be returned to the home of the birth parents because of specific factors, or who could not otherwise be adopted because of certain conditions). The credit is per adoption, not per year. Thus, if a person adopts two children in 2013 and incurs $30,000 of qualified expenses, the credit limitation is $25,940. The adoption credit is phased out for higher income individuals with modified AGI between $194,580 and $234,580 (for 2014 between $197,880 and $237,880). Unused adoption credit can be carried forward for up to five years.

NANNY TAX REPORTING

During 2013, if you paid $1,800 or more to a person 18 or over for household services, you are required to report his or her social security and federal unemployment taxes on your personal tax return. These amounts are reported on Schedule H. The reporting threshold increases to $1,900 for 2014.

These employment taxes must be paid by the due date of the return, April 15, 2014, without extensions. Inasmuch as these taxes are part of your tax liability, your estimated taxes or withholding must be sufficient to cover them.

Planning Suggestion: Because the $1,900 amount (for 2014) applies to each household employee, if possible, try to keep payments to each person below $1,900 per year. In 2014, you can also give your household employee up to $130 per month (a ***decrease*** from $245 for 2013) for expenses to commute by public transportation without this amount counting toward the $1,900 threshold or being included in the employee's gross income.

CAUTION: Payments to household employees may also be subject to state unemployment and other state taxes.

ESTIMATED TAXES

Generally, all individuals must make quarterly estimated tax payments if they have income that is not subject to withholding. This includes individuals who are self-employed or retired or who have investment income, such as interest, dividends, and capital gains. It also includes partners and S corporation shareholders.

The law provides several safe harbors for determining the minimum estimated tax that must be paid to avoid penalties. In 2013, the safe harbor percentage remains at 100% of the 2012 tax for individuals with 2012 AGI under $150,000 ($75,000 for married filing separately), but increases to 110% of the 2012 tax liability for individuals with 2012 AGI over those amounts. In the converse situation where an individual expects 2013 income to be lower than 2012 income, the individual can avoid penalties by paying estimated taxes for 2013 in an amount equal to at least 90% of projected 2013 tax liability.

Planning Suggestion: Deferring a large gain from December 2013 to January 2014 may postpone all or a portion of the federal tax payment on that gain to April 15, 2015. While the gain deferral may postpone the timing of tax payment, the tax rates for 2013 should also be considered when making such decisions. Unless you are subject to AMT, it may be beneficial to pay estimated state income taxes on a 2013 gain prior to the end of 2013 in order to obtain an itemized deduction on your federal 2013 return.

Two other safe harbor exceptions are available to eliminate penalties for insufficient payments of estimated taxes. No penalty will be imposed for underpayment of estimated taxes if the unpaid tax liability for the year (after taking into account any withholding) is less than $1,000. In addition, if your income varies throughout the year, you may use an annualized installment method to reduce or eliminate potential penalties.

The same rules apply to certain estates and trusts.

Planning Suggestion: If you have underpaid an installment of 2013 estimated taxes, increasing a later installment will not completely eliminate the underpayment penalty. However, increased withholding on year-end salary or bonus payments may be used to make up the underpayment. That is because withholding on compensation is deemed paid evenly over all quarters of the year.

Note: Voluntary withholding of income taxes from social security payments and certain other federal payments is permitted. This withholding may eliminate the need to file quarterly estimated payments for certain retired persons.

YEAR-END GIFTS

The end of the year is the traditional time for making gifts. For 2013 and 2014, you may give up to $14,000 to a person without incurring any federal gift tax liability. The $14,000 annual limit applies to each donee. Thus, you may make $14,000 gifts to as many people as you like. If you are married, you and your spouse can give $28,000 to each person, if your spouse consents to splitting the gift or if you give community property. To qualify for this annual exclusion, the property must be given outright to the donee or put into a trust that meets certain conditions.

In addition to the annual exclusion, the lifetime exemption (made available in the form of a credit against tax based on an exemption-equivalent amount) allows each person to transfer $5,250,000 for 2013 ($5,340,000 for 2014) by gift without incurring any gift tax liability (reduced by the amount of any lifetime exemption that may have been used in a prior year). Using this credit now will keep future appreciation on the transferred property out of your estate. However, using the lifetime credit against 2013 (or 2014) gifts reduces the credit available for future years.

A widow or widower may have an increased lifetime exemption if the deceased spouse died after 2010 with an unused exemption amount and an estate tax return was filed. A full discussion of the portability of the lifetime exemption between spouses is beyond the scope of this letter. Please consult with your BDO or Alliance firm client service professional for a more complete explanation of the portability rules.

In addition to gifts subject to the annual exclusion and the lifetime credit, direct payments of tuition made on another person's behalf to a university or other qualified educational organization are also excluded from gift tax, as are direct payments of medical expenses to a medical care provider.

Planning Suggestion: You should consider using appreciated property in making gifts. If the recipients are in lower income tax brackets than you, income from the transferred property, including any gain on sale, will be taxed at lower rates.

Planning Suggestion: It is generally unwise to give property that has declined in value. Rather, you should sell the property and realize the tax benefits of the loss.

All outright gifts to a spouse (who is a United States citizen) are free of federal gift tax. However, for 2013, only the first $143,000 ($145,000 for 2014) of gifts to a non-United States citizen spouse are excluded from the total amount of taxable gifts for the year. You should coordinate your year-end gift giving with your overall estate planning. Your BDO or Alliance firm client service professional can assist you with these matters.

CONCLUSION

An annual physical examination is important for maintaining good health. Likewise, an annual financial examination that includes year-end tax planning can enhance your financial well-being. Your BDO or Alliance firm client service professional is available to help you achieve your tax and financial objectives.

TAX PROVISIONS RELATING TO HIGHER EDUCATION COSTS 2014

The Taxpayer Relief Act of 1997, the Economic Growth and Tax Relief Reconciliation Act of 2001and the American Recovery and Reinvestment Act of 2009 added several provisions to the federal tax law to help moderate-income individuals and families save and pay for higher education costs. The American Taxpayer Relief Act of 2012 extended the effective date of some of these provisions. These provisions are as follows:

Provision	AGI Limitation for Complete Phase-out **Single/Joint**	**Description**
American Opportunity Tax (Hope) Credit	$90,000/$180,000	Tax credit of up to $2,500 per student for each of the first four years of college
Lifetime Learning Credit	$64,000/$128,000	Tax credit of up to $2,000 per taxpayer for university juniors, seniors and graduate students
Education IRAs	$110,000/$220,000	Income exemption for accumulated earnings from annual nondeductible contributions of $2,000 per beneficiary used to pay for higher education expenses
Regular IRAs	Unlimited	Penalty-free distributions from regular IRAs used to pay higher education expenses
Education loans	$80,000/$160,000	Penalty-free distributions from regular IRAs used to pay higher education expenses
State tuition programs	Unlimited	Earnings accumulated from contributions to qualified state tuition programs distributed
Student loan cancellations	Unlimited	Exclusion for student loan cancellations by tax-exempt organizations in prescribed situations

Individual taxpayers may claim an income tax credit equal to the sum of the American Opportunity Tax (Hope) Credit (up to $2,500 for 2014 per student) and the Lifetime Learning Credit (per taxpayer, up to $2,000), for higher education expenses at accredited post-secondary educational institutions paid for themselves, their spouses and their dependents. For 2014, these credits are reduced ratably at modified AGI between $108,000 and $180,000 on joint returns, and between $54,000 and $90,000 on other returns. Both credits cannot be claimed in the same year with respect to any one student. Neither credit is available for married taxpayers who file separate returns.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

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