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Resource Report

January 2015 • www.gallina.com

Greetings!

Happy 2015! Here at GALLINA, we are gearing up for *our* most favorite time of the year - TAX SEASON! It's our time to shine and we are excited to provide our clients with outstanding service and invaluable advice for the year ahead.

We look forward to connecting with many of you in the upcoming months. If you have any questions in the meantime, don't hesitate to contact your trusted GALLINA partner. We are here and ready to tackle your toughest problems.

"Always bear in mind that your own resolution to succeed is more important than any other." - Abraham Lincoln

All information contained in our newsletters can always be found and downloaded from the GALLINA website under the Newsroom and Resources links.

GALLINA Tax Bites:

You May Be Able to Save More for Retirement in 2015

Many retirement plan contribution limits increase slightly in 2015; thus, you may have opportunities to increase your retirement savings:

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. For more information on how to make the most of your tax-advantaged retirement-saving opportunities in 2015, please contact us at 877.638.1188 or info@gallina.com.

Alerts, Updates and Changes:

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If I Provide Monetary Support to Relatives, Should I Give a Gift or a Loan?

An intrafamily loan rather than a gift can be attractive if you're not ready to part with your wealth. For example, because you're concerned about having enough money to fund your retirement or you feel that your children aren't ready to handle the responsibility, intrafamily loans allow you to provide family members with financial support while hanging onto your "nest egg" and encouraging your children to be financially responsible.

Charge Interest
When you lend money to family members, it's important to charge interest at the applicable federal rate (AFR) or higher. Otherwise you'll trigger unintended income and gift tax consequences.

The key to transferring wealth with an intrafamily loan is the borrower's ability to take advantage of investment opportunities that offer relatively high returns. In other words, the borrower essentially receives the "spread" between the investment returns and the loan interest being paid -- free of gift and estate taxes.

Average AFRs, which are adjusted monthly, have been very low and are expected to remain low in 2014, perhaps making it easier for a borrower's investments to outperform the interest rate on a loan. AFRs vary depending on whether the loan is short term (three years or less), midterm (more than three years but not more than nine years) or long term (more than nine years). They also vary depending on how frequently interest is compounded.

Keep in mind that the loan balance is still included in your taxable estate. Even if you die before the loan is paid off, the borrower generally must repay the loan to your estate, although an intrafamily loan can be structured to provide that the loan will be forgiven if you die before it's paid off.

Understand the Risks
The biggest risk, of course, is that the invested funds will fail to outperform the AFR. If that happens, your child (or other borrower) will have to use his or her own funds to pay some or all of the interest -- and, if he or she experiences a loss on the investment, even some of the principal. In other words, instead of transferring wealth to your child, your child will transfer wealth to you. As noted above, however, low AFRs help minimize this risk.

There's also a risk that the IRS will challenge the loan as a disguised gift, potentially triggering gift tax liability or using up some of your lifetime exemption. To avoid this result, you must treat the transaction as a legitimate loan. That means documenting the loan with a promissory note and adhering to its payment and enforcement terms. So, for example, if your child is unable to make a payment, you should make a genuine effort to collect the funds from the child.

Avoid the temptation to make no-interest loans to family members (or loans with interest below the AFR). If you do, you'll be subject to income tax (with certain exceptions for smaller loans) on imputed interest -- that is, the excess of the AFR over the interest you actually collect. So, you'll be taxed on interest that you didn't receive. In addition, the imputed interest will be treated as a taxable gift made by you to the borrower.

An Important Decision
Determining how best to transfer your wealth to loved ones takes much thought. Whether making an intrafamily loan is the right strategy for your situation -- or giving gifts makes more sense -- is a question you must consider before taking action. Your GALLINA team can help you weigh your options and choose the best strategy. Should you have questions, call 877.638.1188 today or email info@gallina.com.

OSHA's Updated Injury Recordkeeping Rule

Beginning Jan. 1, 2015, contractors and other applicable employers will face new deadlines and requirements for reporting severe injuries on the jobsite. The Occupational Safety and Health Administration's revised recordkeeping rule includes two key changes:

First, the rule updates the list of industries that are exempt from the requirement to routinely keep OSHA injury and illness records, due to relatively low occupational injury and illness rates. The previous list of industries was based on the old Standard Industrial Classification (SIC) system and injury and illness data from the Bureau of Labor Statistics (BLS) from 1996, 1997, and 1998. The new list of industries that are exempt from routinely keeping OSHA injury and illness records is based on the North American Industry Classification System (NAICS) and injury and illness data from the Bureau of Labor Statistics (BLS) from 2007, 2008, and 2009. Note: The new rule retains the exemption for any employer with ten or fewer employees, regardless of their industry classification, from the requirement to routinely keep records.

Second, the rule expands the list of severe work-related injuries that all covered employers **must report to OSHA all work-related fatalities within 8 hours and all work-related inpatient hospitalizations, all amputations and all losses of an eye within 24 hours.** You can report to OSHA by calling OSHA's free and confidential number at 1-800-321-OSHA (6742), calling your closest Area Office during normal business hours or using the new online form that will soon be available. Establishments in a state with a state run OSHA program should contact their state plan for the implementation date.

Automatic Approval of Change in Funding Method for Takeover Plans

The IRS has recently announced an automatic approval of change in funding method for takeover plans. This announcement provides automatic approval of a change in funding method with respect to a single-employer defined benefit plan under certain circumstances in which the change in method results from a change in the plan's enrolled actuary. The automatic approval provided by this announcement will apply for plan years beginning on or after January 1, 2013.

If you have questions on how this will affect your company's Employee Benefit Plan, please contact your GALLINA tax professional and we'll be happy to help: call 877.638.1188 today or email info@gallina.com. For more detailed information on the IRS announcement, please visit: http://www.irs.gov/pub/irs-drop/a-15-03.pdf.

More Tax Tips...

Take Advantage of the 0% Capital Gains Tax Rate

For high-income earners, long-term capital gains are taxed at rates as high as 23.8% (20% for those in the top tax bracket, plus a 3.8% tax on net investment income). The long-term capital gains rate for taxpayers in the 10% and 15% brackets is 0%. One strategy for taking advantage of tax-free capital gains is to transfer capital assets to your children or other family members in the two lowest brackets. For 2015, that means projected taxable income up to $37,450 ($74,900 for joint filers).

Before you try this technique, consider any potential gift tax consequences. And keep in mind that the 0% rate applies only to the extent that capital gains "fill up" the gap between the taxpayer's other taxable income and the top end of the 15% bracket. Once that level is reached, additional capital gains are taxed at 15%.

This strategy won't be effective if you transfer assets to a dependent child under the age of 19 (24 for a full-time student). Why? The "kiddie tax" will apply your marginal income tax rate to the child's unearned income (including capital gains) to the extent it exceeds $2,000.

Don't Overlook the IC-DISC

If your business exports American-made goods or performs architectural or engineering services for foreign construction projects, an interest-charge domestic international sales corporation (IC-DISC) can help slash your tax bill.

An IC-DISC is a "paper" corporation you set up to receive commissions on export sales, up to the greater of 50% of net income or 4% of gross receipts from qualified exports. Your business deducts the commission payments, while distributions received from the IC-DISC are treated as qualified dividends, not capital gains.

Essentially, an IC-DISC allows you to convert ordinary income taxed at rates as high as 39.6% into dividends taxed at 15% or 20%. An IC-DISC also allows you to defer taxes on up to $10 million in commissions held by the IC-DISC by paying a modest interest charge to the IRS.

Manufacturers' Deduction for Retailers?

The manufacturers' deduction allows eligible businesses to deduct up to 9% of their net income from "qualified production activities." Although this typically means manufacturing, other types of activities also may be eligible.

In a 2014 legal memorandum, the IRS confirmed that retailers may claim the deduction for certain cooperative advertising payments received from vendors in connection with the retailer's printed flyers. If your business uses cooperative advertising agreements, see if you're eligible for the deduction.

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GALLINA partners are dedicated to their clients' businesses and industries. To provide the most relevant information, GALLINA passes along articles from our professional service affiliates as well as professional articles written by GALLINA firm partners. These articles are a great read for general knowledge and a **"must read"** if they are directly related to your industry.

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- The New Estate Tax Rules and Your Estate Plan
- Key Estate Planning Documents
- Advanced Estate Planning Concepts for Women
- Domestic Self-Settled Spendthrift Trust

GALLINA Quick Sheets are 1-2 page reference sheets containing tax or planning tips created to quickly provide important information for your business or personal benefit.

GALLINA Quick Sheets *(all new releases)*

- Tax Season Opens as Planned Following Extenders Legislation
- Taxpayer Bill of Rights
- Rollovers of After-Tax Contributions in Retirement Plans
- New Law Renews IRA Transfers to Charity for 2014
- New IRS Publication helps you understand the Health Care Law

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