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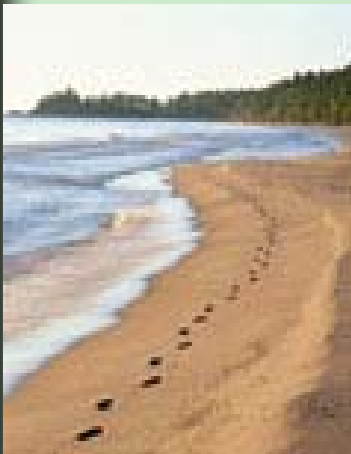
In this issue:

Top 10 Tax Breaks

My Parent's Can't Manage Alone

On a Personal Note

Things to Consider about Gifts to Children



Top 10 Tax Breaks You'll Miss in 2014



You probably didn't notice, but when the clock struck midnight on December 31, 2013, a number of popular tax benefits, commonly included in the list of provisions referred to as "tax extenders" expired. While it's possible that Congress could retroactively extend some or all of these items, you'll have to evaluate your 2014 tax situation based on the fact that they're no longer available.

1. Qualified charitable distributions

For the past few years, a qualified charitable distribution (QCD) of up to \$100,000 could be made from an IRA directly to a qualified charity if you were age 70½ or older. Such distributions were excluded from income and counted toward satisfying any required minimum distribution (RMD) that you would otherwise have had to take from your IRA for that tax year. QCDs aren't an option for 2014, however.

2. Qualified small business stock exclusion

For qualified small business stock issued and acquired after September 27, 2010, 100% of the capital gain resulting from a sale or exchange could be excluded from income, provided certain requirements, including a five-year holding period, are met. For qualified small business stock issued and acquired after 2013, however, the amount that can be excluded from income drops to 50%.

3. Deduction for higher education expenses

The above-the-line deduction for qualifying tuition and related expenses that you pay for yourself, your spouse, or a dependent is not available for 2014.

4. Classroom educator expense deduction

The above-the-line deduction for up to \$250 of unreimbursed out-of-pocket classroom expenses paid by qualified education professionals also expired at the end of 2013.

5. State and local sales tax deduction

If you itemize deductions for the 2014 tax year,

you won't have the option of claiming a deduction for state and local sales tax in lieu of the deduction for state and local income tax.

6. Depreciation and expense limits

The maximum amount that can be expensed under Internal Revenue Code Section 179 drops significantly from its 2013 level of \$500,000 to \$25,000 for 2014. The special 50% "bonus" first year additional depreciation deduction has also ended.

7. Mortgage insurance premiums

Starting in 2014, individuals who itemize deductions will no longer have the ability to treat premiums paid for qualified mortgage insurance as deductible interest on IRS Form 1040, Schedule A.

8. Employer-provided commuter expenses

For 2013, you could exclude from income up to \$245 per month in transit benefits (e.g., transit passes) and \$245 per month in parking benefits. For 2014, the monthly limit for qualified parking increases to \$250, but the monthly limit for transit benefits drops to \$130.

9. Energy efficient home improvements and property

The nonbusiness energy property credit offset some of the costs associated with the installation of energy efficient qualified home improvements (e.g., insulation, windows) and qualified residential energy property (e.g., water heater, central air). Specific qualifications and limits applied, and an overall lifetime cap of \$500 was in effect for 2013. The credit is not available at all in 2014.

10. Discharge of debt on principal residence

Since 2007, individuals have generally been allowed to exclude from income amounts resulting from the forgiveness of debt on their principal residence. This provision expired at the end of 2013.

Charles Cheryl Matt

My parents can't manage alone anymore. What should I do?



Are one or both of your parents having health problems, suffering mental lapses, or just slowing down with age? Do you find they can't manage on their own anymore? If so, you'll want to consider the various living arrangements that are available to older individuals.

Before you begin, however, you'll want to talk to your parents and siblings.

Sometimes the best option is to have your parents move in with (or closer to) you. That way, you avoid having to use your parents' assets (or your own) to pay for a nursing home or other facility. You won't have to worry about your parents potentially receiving inadequate care from strangers. And your parents will probably appreciate the gesture of love and self-sacrifice on your part. However, the cost of feeding, clothing, and caring for your parents can be high, especially if you're forced to give up a job to be home with your parents. And don't underestimate the emotional and psychological impact. What if your parents' care is more than you can handle? You may then wish to consider some type of assisted-living arrangement. The broad term "assisted living" encompasses a range of facilities and services designed to

help seniors who can't live independently. The assistance provided may be short- or long-term and may focus on social services, medical care, or some combination of the two. Depending on your parents' conditions and needs, one or more of the following assisted-living arrangements may be worth considering:

- Nursing homes
- Assisted-living communities
- Continuing care retirement communities
- Alzheimer's/dementia care specialty facilities
- Retirement communities
- Active senior communities
- Home health care
- Hospice care
- Adult day-care services

And don't be afraid to talk to a social worker, your parents' physicians, or other professionals. They can offer you support, and recommend solutions that best meet your parents' needs.

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What is an assisted-living facility, and how do I choose one?



What is an assisted-living facility? The wide number of options available makes defining the term difficult. Generally, however, assisted-living facilities primarily serve senior citizens who need more help than those who live in independent living communities.

These facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. Their primary focus is social, not medical, but some do provide limited medical care. Other terms used to describe assisted-living arrangements are board and care homes, rest homes, and community residences. Continuing care retirement communities (CCRCs), also called life care communities, fit loosely into this category as well, although they provide what other assisted-living facilities do not: long-term nursing care and guaranteed lifetime services.

How do you choose an assisted-living facility? Definitely plan on touring the facility beforehand. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people.

Consider whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided? What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

And read the contract carefully--this may save you time and money later if any conflict over services or care arises. As for the cost, a wide range of care is available at a wide range of prices. If you have long-term care insurance, check your policy. These contracts normally pay a specified dollar amount per day (typically \$40 to \$150) for certain skilled, intermediate, or custodial care in assisted-living facilities, for some specified period of time (usually two to five years). Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.

Some Things to Consider about Gifts to Children



If you make significant gifts to your children or someone else's children, or if someone else makes gifts to your children, there are a number of things for you to consider.

Transfers that are not taxable gifts

There are a variety of ways for you to make transfers to children that are not treated as taxable gifts for gift tax purposes. Filing a gift tax return is generally required if you make gifts (other than qualified transfers) totaling more than \$14,000 to an individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. This may provide a large umbrella for parents of minor children, college-age children, boomerang children, and special needs children.

- **Annual exclusion gifts.** You can generally make gifts of up to \$14,000 per child gift tax free each year. If you split gifts with your spouse, the amount is effectively increased to \$28,000. In the case of a gift to a qualified tuition program (529 plan) for a child, the annual exclusion can be effectively increased to five times the above amounts (i.e., to \$70,000, or \$140,000 if you split gifts with your spouse).

- **Qualified transfers for medical expenses.** You can make unlimited gifts for medical care gift tax free, provided the gift is made directly to the medical care provider.

- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition gift tax free, provided the gift is made directly to the educational provider. The same exceptions for transfers that are not taxable gifts generally apply for purposes of the generation-skipping transfer (GST) tax. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income tax issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.

- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rate on any

unearned income over a certain amount. For 2014, this amount is \$2,000 (the first \$1,000 is tax free and the next \$1,000 is taxed at the child's rate). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support. If the child's income would be taxed at the parents' high tax rates, it may make sense to invest in ways that can produce nontaxable income (e.g., tax-exempt bonds) or defer taxation (e.g., Series EE bonds) until after the kiddie tax period.

- **Basis.** When you make a gift, the person receiving the gift generally takes an income tax basis equal to your basis in the gift. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over your basis in the gift immediately before the gift). The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Gifts to minors

Outright gifts should generally be avoided for any significant gifts to minors. In that case, you may wish to consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian holds the property for the benefit of the minor, generally until an age (often 21) specified by state statute. Generally, any adult or trust company can be the custodian, but check state law.

- **Trust for minor.** A Section 2503(c) trust is a trust specifically designed to obtain the gift tax annual exclusion for gifts to a minor. Principal and income can be distributed to the minor before age 21, but there is no requirement of any distribution to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21.

Consult a tax professional for more information about your specific situation.

"Our mission is to help our clients realize their financial goals, with compassion and integrity, as they travel their pathway of life."

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