



Online Advisor - November 2013

Major Tax Deadlines For November 2013

During November: It's wise to estimate your 2013 income tax liability and review your options for minimizing your 2013 taxes. Call us if you would like to schedule a tax-planning session.

NOTE: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of social security taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe \$100,000 or more on any day during a deposit period, if you owe \$2,500 or less for the calendar quarter, or if your estimated annual liability is \$1,000 or less.

* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.

* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

What's New in Taxes

Use this 2013 tax break soon - or it's gone forever

Did you know that this year you can give gifts of up to \$14,000 to as many individuals as you want without being liable for gift tax? Normally, any gift you make counts towards your lifetime exemption from gift and estate taxes. That's so you don't just give away your estate shortly before death to avoid estate taxes.



But each year you can make an unlimited number of gifts free of tax, provided they're below a certain amount. The limit for 2013 is \$14,000 per gift. A husband and wife each have their own separate limit, so they can jointly give up to \$28,000 to any one person.

You can put the gift exclusion to good use in several situations. For example, you could use a multi-year gift program to decrease the size of your estate and reduce estate taxes. A married couple giving to each of their three children could reduce their estate by a total of \$84,000 every year, for example.

You could also use the gift exclusion in an income-shifting strategy. You could make gifts of income-generating assets to your children who are in a lower tax bracket. If done carefully to avoid the "kiddie tax," the result can be a lower overall tax bill for the family unit.

Two types of gifts are exempt from the \$14,000 limit. You can make unlimited gifts for tuition expenses or medical expenses on behalf of any person, provided you make the payments directly to the educational institution or health care provider.

The 2013 gift exclusion expires when 2013 does, so act soon if you want to use this tax break.

Health care law gets underway for individuals

Although the employer mandate for providing health insurance coverage to workers under the "Affordable Care Act" (ACA) was postponed for one year - until January 1, 2015 - the rules for individuals remain in place, at least for the foreseeable future. What are your main rights and responsibilities under the ACA? Here's a brief summary.

Essentially, unless you are already covered by an employer's plan, Medicare, or Medicaid, you're required to obtain coverage on your own or pay a penalty. The plan is to have affordable options available through state-operated exchanges. Some low-to-moderate income families may be eligible for various subsidies.

*** Insurance exchanges.** The health care exchanges in 14 states, as well as the federal government's default exchange, opened for business on October 1, 2013. Coverage will be available as of January 1, 2014, for an open enrollment period ending on March 31, 2014.

The plans offered under the health care law are divided into four categories with metallic names: platinum, gold, silver, and bronze. Premiums range from the highest for a platinum plan to the lowest for bronze. With a platinum plan, out-of-pocket costs such as co-payments are lower, while these costs are higher for bronze plans.



* **Tax credits.** Individuals can apply for subsidies in the form of tax credits and other reductions to offset the cost of insurance purchased on an exchange. (The tax credits are sent to the insurance companies so individuals don't have to pay up-front.) Credits are available to individuals and families with income between 100% and 400% of the federal poverty level. Therefore, the upper threshold in 2013 is \$45,960 for an individual and \$94,200 for a family of four. However, even if your income falls below the threshold, you're not eligible for subsidies if your employer's plan meets the coverage standards.

* **Penalties.** Beginning in 2014, failure to obtain coverage results in a penalty equal to the higher of 1% of your annual income or a flat fee of \$95 per person. The fee for uninsured children is \$47.50 per child, up to a maximum of \$285 per family. The IRS has been given the responsibility of enforcing the penalties.

Do you need more information? Visit the one-stop site for applications at healthcare.gov or call 800-318-2596.

New Business

New rule on tips and service charges effective January 2014

When is a tip not a tip but a service charge instead? Sound like hair splitting? Well, not according to a new IRS rule that will go into effect this coming January.

Here's the background story. Many restaurants charge automatic gratuities of 15% to 20% for large parties. Treated as tips, these amounts have been paid to restaurant workers along with their other tips, and the workers have been responsible for reporting them as income to the IRS.

According to the IRS, a payment from a customer can only be considered a tip if the following is true:

- * the payment is not compulsory
- * the amount is decided by the customer
- * the payment is not dictated by employer policy
- * the customer is free to decide who receives the payment

If the payment is a specified amount added to the bill for large parties, it's a service charge, not a tip, says the IRS. Service charges are treated as regular wages subject to withholding by the employer.



This ruling complicates income reporting for both restaurant employees and employers. For assistance in getting your bookkeeping ready to deal with this new rule, give our office a call.

Pay attention to your financial statements

Many small business owners pay too little attention to their financial statements. This is due in part to not understanding just what the statements have to offer. In fact, many may not be able to tell you the difference between a Balance Sheet and an Income Statement.

*** Balance Sheet and Income Statement**

Think of them this way. The Balance Sheet is like a still picture. It shows where your company is at on a specific date, month-end, or year-end. It is a listing of your assets and debts on a given date. So Balance Sheets that are a year apart show your financial position at the end of year one versus the end of year two. Showing how you got from position one to position two is the job of the Income Statement.

Suppose I took a photo of you sitting behind your desk on December 31, 2011. And on December 31, 2012, I took a photo of you sitting on the other side of your desk. We know for a fact that you have moved from one side to the other. What we don't know is how you got there. Did you just jump over the desk, or did you run all the way around the building to do it? The Income Statement tells us how you did it. It shows how many sales and how much expense was involved to accomplish the move.

*** Funds Flow Statement**

To see why a third kind of financial statement called a Funds Flow Statement is useful, follow this case. A printer has started a new printing business. He invested \$20,000 of his own cash and borrowed \$50,000 from the bank to buy new equipment. After a year of operation, he has managed to pay off the bank loan. He now owns the equipment free and clear. When he is told that his net profit is \$50,000, he can't believe it. He might tell you that he took nothing out of the business and lived off his wife's wages for the year. And since there is no cash in the bank, just where is his profit? The Funds Flow Statement will show the income as a "source of funds" and the increase in equipment is an "application of funds." The Funds Statement is even more useful when you have several assets to which funds can be applied and several sources of funds such as bank loans, vendor payables, and business profit or loss.



Don't be afraid to voice your questions about your financial statements. The more questions you get answered, the more useful you will find your financial statements. Accounting is sort of a foreign language. Learn to speak a little of it.

What's New in Finances

Watch out for health care scams

It's open enrollment time for Medicare recipients, allowing people to choose their health plan for 2014 until December 7, 2013. Dealing with the fine print of insurance coverage can be challenging, but it's smart to look your current policies over carefully and compare what you have currently to other options that are available. An annual review could end up saving you money and/or giving you better coverage for your particular needs.

Seniors should also be aware that the scammers are at work again, this time using the new health care reform law ("Affordable Care Act," also known as ObamaCare) to lure people into buying what they don't need or providing financial information that scammers use to steal identities.

Take another look at health savings accounts

Year after year, health care and medical insurance costs outpace inflation. It's little wonder, therefore, that business owners and employees are scrambling for ways to curtail health care expenses. One option worth considering is a health savings account or HSA.

*** How HSAs work.** An HSA works in tandem with a high-deductible health plan (HDHP). To qualify as an HDHP, the policy's deductible (for the 2013 tax year) must be at least \$1,250 for an individual or \$2,500 for a family. You sign up for an HDHP policy with an insurance company and an HSA with your employer. Throughout the year, you deposit money in your HSA using pre-tax dollars, subject to certain limits on annual contributions. (For 2013, HSA contribution limits are \$3,250 for individuals and \$6,450 for families.)

When medical bills come due, you're allowed to withdraw money from this account, tax-free, to cover out-of-pocket costs, including your deductible, payments for prescription drugs, and medical bills not covered by your insurance policy.

*** HSAs compared to FSAs.** How does an HSA differ from a flexible savings account (FSA)? For one thing, there's no requirement that you "use or lose" HSA contributions by the end of the year. You can



leave the money in an HSA and allow it to grow tax-free until needed. In addition, an HSA is portable. You can take it with you if you change employers (not so with an FSA). Moreover, if you don't need the money for current medical bills, you're allowed to invest HSA contributions and earnings in a variety of mutual funds and other investments.

* **The business side.** Businesses, too, might want to consider HSAs. The employer's portion of insurance expense may be reduced because insurance premiums tend to be lower with high-deductible health plans. By contributing to HSAs, workers also may be encouraged to become more prudent consumers of health care services and better stewards of their own health. This, in turn, may reduce business costs related to employee sickness.

* **Consider all angles.** For some people, however, an HSA may not be the best option. For example, if you're under age 65 and want to withdraw money from an HSA to cover non-medical expenses, the withdrawals will be subject to income tax and a hefty 20% penalty.

So it's important to consider this option from every angle. If you'd like more information about HSAs, give us a call.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.