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Leslie A. Cesario, Ltd. Monthly Newsletter

Beginning in 2014, the Affordable Care Act will impose the new requirement that all people in the United States, with certain exceptions, have minimum essential health care insurance or they will be subject to a penalty. How this will affect your family will depend upon a number of issues.

Already Insured
If you have insurance through Medicare, Medicaid, or the Veterans Administration, then you will not be subject to the penalty. You will also avoid the penalty if you are insured through an employer plan or a private insurance plan that provides minimum essential care. US individuals and those claimed as their dependents who reside outside the US are deemed to have adequate coverage and are not subject to the penalty.

Some Are Exempt from the Penalty
Certain individuals are exempt from the health insurance mandate and are therefore not subject to the penalty. Included are:

- Those unlawfully present in the US
- Those whose income is below the federal tax filing requirement (the sum of the standard deduction and exemption amounts for the filer and spouse, if any)
- Those who cannot afford coverage based on formulas contained in the law (generally when the cost of the insurance coverage exceeds 8% of the individual's household income)
- Members of American Indian tribes
- Incarcerated individuals, certain religious objectors, and those meeting hardship requirements

Household Income
The term "household income" is used as a measure of who qualifies for a premium assistance subsidy or tax credit and is used extensively in calculations related to the mandatory insurance requirements.

Household income includes the modified adjusted gross incomes (MAGIs) of an individual, the individual's joint filing spouse, if any, and all of the individual's dependents that are required to file a tax return(1).

MAGI is an individual's regular adjusted gross income plus non-taxable social security and railroad retirement benefits, excluded foreign earned income, and non-taxable interest and dividends.

(1) An individual is required to file a tax return if their income exceeds the sum of their standard deduction and allowable exemptions. Thus, for example, a single person who only made $1,000 for the year would not be required to file a return and their income would not be included in the household income even if they did file to claim a refund.

Can't Afford Coverage?

Families with household incomes below 400% of the federal poverty guideline may receive help to pay all, or a portion of, the cost of the premiums for health insurance.

Where the household income is below 100% of the federal poverty level, the family qualifies for Medicaid. There are no premiums for Medicaid.

If the household income is between 100% and 400% of the federal poverty level (FPL), the family qualifies for an insurance premium subsidy, also known as a premium assistance credit, provided the insurance is purchased through a government marketplace (exchange). The actual credit is based upon the current year's household income but can be estimated and allowed in advance as a subsidy. When it is used in advance as a subsidy and the subsidy turns out to be greater than the allowable credit, the excess subsidy may have to be paid back. On the other hand, if the subsidy was not used or the subsidy was less than the credit, the difference becomes a refundable credit on the tax return.

The maximum credit is available at 100% of the poverty level and becomes less as the percentage increases and is totally phased out at 400% of the poverty level.

2014 FEDERAL POVERTY LEVEL CHART				
Family Size	100%	200%	300%	400%
1	$11,490	$22,980	$34,470	$45,960
2	$15,510	$31,020	$46,530	$62,040
3	$19,530	$39,060	$58,590	$78,120
4	$23,550	$47,100	$70,650	$94,200

For family sizes larger than 4, increase the 100% rate by $4,020 for each additional child. Dollar amounts for Alaska and Hawaii are larger. Note that the table is condensed for this brochure and the actual percentage of poverty level will need to be extrapolated for income not shown in the table. For 2014, the FPL amounts are those in effect on October 1, 2013, the opening date for 2014 enrollment in plans offered through a government marketplace.

Credit/Subsidy Qualifications
To qualify for the credit, an individual must:

- Have household income for the year of at least 100% but not more than 400% of the federal poverty level
- Purchase the insurance through a government marketplace (exchange)
- Not be claimed as a dependent of another
- Not be eligible for minimum essential care through Medicaid
- If married, file a joint tax return
- Not be offered minimum essential insurance under an employer-sponsored plan

How Much Will the Subsidy Be?
The amount of the subsidy is based on need and therefore those in the lowest percentage of the poverty level will receive the greatest subsidy. The government has predetermined how much each family must pay toward their own insurance in the form of a percentage of the family's household income. To determine how much a family must pay toward their own insurance, first determine where their income falls within the poverty table above and then

determine their percentage from the table below. That percentage represents the portion of their household income that they should pay toward their own insurance.

Poverty Level	Percentage of Household Income That Must Be Paid Toward Own Insurance
Up to 133%	2.00 – 3.00%
133% up to 150%	3.00 – 4.00%
150% up to 200%	4.00 – 6.30%
200% up to 250%	6.30 – 8.05%
250% up to 300%	8.05 – 9.05%
300% up to 400%	9.50%

Note: the table is condensed for this brochure and the actual percentage of household income that must be paid toward one's own insurance will need to be extrapolated for poverty levels between those shown.

Once the percentage in the right-hand column is determined, multiply that by the family's household income to determine what the family's annual responsibility is and divide it by 12 to determine their monthly responsibility.

Then, to determine the subsidy, go to the government marketplace and determine the cost of the Silver(2) level of insurance for the family and subtract the amount they are required to pay themselves; the difference, if any, is the subsidy.

Example: *Family of two with a household income of $31,020. From the Federal Poverty Level Chart it is determined that a family of 2 with that income is at 200% of the federal poverty level. Using the 200% of poverty level it is determined from the second table that their responsibility toward their own insurance should be 6.3% of their household income or $1,954 (.063 x $31,020) or $162.83 per month. If the cost of the Silver level of insurance is $350 per month, then the premium subsidy would be $187.17 ($350 - $162.83).*

(2) Insurance acquired through the marketplace (exchange) is available in four levels of cost (premium), with varying metal designations. The least expensive is the Bronze coverage, which is also the insurance that provides the "minimum essential coverage" needed to avoid a penalty. Next is the Silver level, which is referred to as the "benchmark premium." The Silver or benchmark premium is the one used when determining the subsidy. The Gold and Platinum designations complete the four levels of coverage. The Bronze coverage, on an overall average, is supposed to cover 60% of the insured's medical cost. Silver plans cover 70%, the Gold 80%, and the Platinum 90%.

Paying Back Excess Subsidies

When an insured individual receives a subsidy in excess of the allowable credit based upon the current year's household income, some portion, but not necessarily all, of the excess must be paid back on the tax return for the year. If the household income is above 400% of the poverty level then the entire amount of the excess must be repaid. If the insured's household income is between 100% and 400% of the poverty level, then payback is capped at the following amounts:

Poverty Level	Single	Married
Less Than 200%	$300	$600
200% but less than 300%	$750	$1,500
300% but less than 400%	$1,250	$2,500

Penalty for Not Being Insured
Beginning in 2014, there is a penalty for not being insured unless one of the exemptions mentioned earlier is met. The penalty is being phased in over three years. The monthly penalty for 2014 is the greater of $7.92 per uninsured adult plus $3.96 for each uninsured child(3), but not to exceed $23.75 per month for a family, OR, 1% of household income in excess of the individual's income tax filing threshold(4) divided by 12.

In 2016, when the penalty is fully phased in, the monthly penalty will be $57.92 per uninsured adult and $28.96 per uninsured child(3), not to exceed $173.75 per family OR 2.5% of household income over the income tax filing threshold(4) divided by 12.

The penalty can never be greater than the national average premium for a minimum essential coverage plan purchased through a government marketplace (exchange).

(3) The child rate will apply to family members under the age of 18.
(4) Filing threshold is the sum of the standard deduction and personal exemption amounts for the tax filer and spouse, if any.

Example: *A married couple without insurance in 2014 has one dependent child and a household income of $50,000. The couple's standard deduction is $12,400 and with two exemptions at $3,950 each, their filing threshold for 2014 is $20,300. Their monthly penalty is the greater of $19.80 (2 x $7.92 plus $3.96) or $24.75 (.01 x ($50,000 - $20,300)/12). Thus their monthly penalty would be $24.75.*

There is no penalty when the first lapse in coverage during a year is less than three months.

Insurance Marketplaces
Residents of states that did not set up their own exchanges must use the federal marketplace.

All policies sold through a marketplace have standardized applications, no pre-existing exclusions, and pre-set copays and deductibles. Where an insured family's household income is between 100% and 200% of the federal poverty level, copays and deductibles are reduced by two-thirds. They are reduced by 1/2 where the insured's income is between 200% and 300% , and 1/3 for those between 300% and 400%. Individuals who need to purchase health insurance are not required to use the government marketplaces – they can purchase plans privately. However, privately purchased plans will not be eligible for the premium assistance credit or subsidy, but if they meet the minimum essential coverage requirements, they will qualify the individual to avoid the mandatory coverage penalty. Those shopping for health insurance should check both the private and government marketplaces to compare their net out-of-pocket premium costs.

Dependents
The filer, or filers if filing jointly, is subject to the penalty for every dependent who can be claimed on their tax return. That includes children, parents, and other related individuals.

This is true even if they do not claim the dependent, but were qualified to do so.

Did You Get Married in 2013?

Article Highlights:

- E-filing is not possible if married name does not match Social Security Administration (SSA) records.
- Use SSA Form SS-5 to update SSA records.
- A married status may produce unexpected tax results.

If you got married during 2013, don't forget to notify the Social Security Administration (SSA), IRS, and Postal Service of your address and/or name change. If the SSA does not have the same name as used on your tax return, you may not be able to e-file your returns and your refund could be delayed.

Here are some actions that you should take as soon as possible:

1. **Notify the Social Security Administration** – Report any name change to the Social Security Administration so that your name and SSN will match when filing your next tax return. Informing the SSA of a name change is quite simple. File a *Form SS-5, Application for a Social Security Card* at your local SSA office. You can access the form on SSA's Web site, by calling 800-772-1213, or at local offices. Your income tax refund may be delayed if it is discovered that your name and SSN don't match at the time your return is filed.
2. **Notify the IRS** – If you have a new address, you should notify the IRS by sending Form 8822, Change of Address.
3. **Notify the U.S. Postal Service** – You should also notify the U.S. Postal Service when you move so that any IRS or state tax agency correspondence can be forwarded to your current address.
4. **Review Your Withholding and Estimated Tax Payments** – If both you and your new spouse work, your combined income may place you in a higher tax bracket, and you may have an unpleasant surprise when we prepare your return for 2013. On the other hand, if only one of you works, filing jointly with your new spouse can provide a significant tax reduction. The fat is in the fire for 2013; it may be appropriate to review your withholding (W-4 status) and estimated tax payments, if any, for 2014 to make sure you are not going to be under-withheld and set yourself up to receive bad news when the 2014 return is filed.

If you have any questions about how your new marital status will affect your tax filing, please call this office.

Are You Required To File A Gift Tax Return?

Article Highlights:

- A gift tax return must be filed if you give gifts in excess of $14,000 per recipient during the year.
- Directly paid medical and educational gifts are excluded
- Married individuals can increase the annual $14,000 exclusion to $28,000 by splitting gifts.
- The estate tax exemption can be used to offset gifts in excess of the annual exclusion.

Frequently, taxpayers think that gifts of cash, securities, or other assets that they give to other individuals are tax-deductible and, in turn, the gift recipient sometimes thinks that income tax must be paid on the gift received. Nothing is further from the truth. To fully understand the ramifications of gifting, one needs to realize that gift tax laws are related to estate tax laws.

When a taxpayer dies, the value of his or her gross estate (to the extent that it exceeds the excludable amount for the year) is subject to estate taxes. Naturally, individuals want to do whatever they can to maximize their beneficiaries' inheritances, and limit the amount of tax the estate may owe. Because giving away one's assets before death reduces the individual's gross estate, the government has placed limits on gifts, and if those gifts exceed the limit, they are subject to a gift tax that must be paid by the giver.

Gift Tax Exclusions – Certain gifts are excluded from the gift tax.

- *Annual Exclusion* – This is the annual amount that an individual can give to any number of recipients. This amount is adjusted for inflation, and for 2013, it is $14,000, and can be in the form of cash, property, or a combination thereof. For example, a taxpayer with five children can give $14,000 to each child in 2013 without any gift tax consequences. The taxpayer cannot deduct the gifts, and the gifts are not taxable to the recipients. Generally, for a gift to qualify for the annual exclusion, it must be a gift of a "present interest." That is, the recipient's enjoyment of the gift can't be postponed to the future. For gifts to minor children, there is an exception to the "present interest" rule, where a properly worded trust is established. If the total of all of your gifts to each individual is not over $14,000, then there is no gift tax return filing requirement.

- *Lifetime Limit* – In addition to the annual amounts, taxpayers can use a portion of the federal estate tax exemption (it is actually in the form of a credit) to offset an additional amount during their lifetime without gift tax consequences. However, to the extent that this credit is used against a gift tax liability, it reduces the credit available for use against the federal estate tax at the time of the taxpayer's death. For 2013, the credit-equivalent lifetime gift tax exemption is $5.25 million. If you made a gift to any individual in excess of $14,000 during the year, a gift tax return filing for the year is required even if there is no tax due. The filing allows the IRS to track your federal estate tax exemption reduction as a result of gifts, and includes the tax if you exceed the current lifetime limit.

- *Education and Medical Exclusion* – In addition to the amounts listed above, there are two additional types of gifts that can be excluded from the gift tax:

  (1) Amounts paid by one individual, and on behalf of another individual, directly to a qualifying educational organization as tuition for that other individual.

  (2) Amounts paid by one individual, and on behalf of another individual, directly to a provider of medical care as payment for that medical care. Payments for medical insurance qualify for this exclusion.

Caution: Watch out for unintended gifts such as when an elderly parent places a child on title of the home or other assets.

Gift-Splitting by Married Taxpayers – If the gift-giver is married and both spouses are in agreement, gifts to recipients made during a year can be treated as split between the husband and wife, even if the cash or property gift was made by only one of them. Thus, by using this technique, a married couple can only give $28,000 a year to each recipient under the annual limitation previously discussed.

If you believe that you have a gift tax filing requirement, have additional questions, or would like this office to assist you in planning an appropriate gifting strategy, please call.

Revising Your W-4? Seek Professional Advice First.

Article Highlights:

- Form W-4 is used to establish payroll-withholding amounts.
- Incorrectly completed W-4s can result in under-withholding and unexpected year-end tax liability.
- The IRS's W-4 calculator is only suitable for simple returns.
- Commonly encountered problems in getting the W-4 completed to establish the proper amount of withholding.

This time of year, many employers will request updated W-4 forms from their employees (and the equivalent state form for those who live in a state with income tax). The W-4 form allows you to specify your filing status and the number of dependent exemptions to be used for determining the amount of income tax to be withheld from your payroll. Although the IRS provides an online W-4 calculator, it is generally suitable only for more simple returns, and may not be appropriate in all cases, since it does not take into account all income adjustments, credits, and deductions available. Be careful when completing the W-4 form, because errors can create some significant financial problems.

Let's say that you are married and have two dependents. On your tax return, you claim four exemptions. The natural thing for you to do would be to claim "married" and four exemptions on the W-4. However, for W-4 purposes, the exemption for the taxpayer and spouse are automatically built into the married rates, and only two exemptions need to be claimed. The result, of course, is that the taxpayer ends up claiming more exemptions than he or she actually is entitled to, which can result in under-withholding, if the standard deduction is used.

It is common practice and acceptable for taxpayers to claim additional exemptions when they would otherwise have excessive withholding. Over-withholding may occur because the withholding tables do not account for large itemized deductions or other situations that might reduce the worker's taxable income.

It's also quite common for taxpayers to increase their exemptions to provide more take-home pay from their payroll checks. In doing so, they are essentially borrowing tax money from the government, which they will have to repay – along with possible penalties and interest – when they file their return the following year. That might seem like a good idea now, but it could lead to an unexpected tax liability at tax time. This is where a professional tax projection can more accurately establish appropriate withholding amounts.

Determining the appropriate number of exemptions to claim on the W-4 can be tricky if you have other substantial income on which no tax is withheld or when both spouses of a married couple are employed. The guidance of a tax professional may be beneficial in these and other cases, to help determine the W-4 withholding allowances and to analyze how the withholding amount may affect the need for estimated tax installment payments.

If you feel you need assistance in determining your withholding amount and completing the W-4 to produce the correct withholding, please give this office a call.

Start Planning Now for 2014 Income Taxes

Start Planning Now for 2014 Income Taxes You may not have even completed your 2013 taxes yet. But now is an ideal time to start getting ready for your 2014 returns.

We know that you're in some stage of preparation for your 2013 income taxes. It may seem odd to start thinking about 2014 taxes just now, but actually, this is the ideal time to start planning and making business decisions with their tax implications always in the back of your mind.

As you look at the data that will be entered in your 2013 tax forms, you're likely to come across some expenses that you might have handled differently, or some income that should have been deferred. If you begin your planning process for 2014 while 2013 is still in the works, you can start making smarter, more tax-advantageous business decisions now, instead of late in the year when everyone is rushing to take actions necessary to lower their tax obligation.

Here's how QuickBooks can help you with this new approach.

Overhaul your Chart of Accounts.
The mechanics of doing this in QuickBooks are fairly uncomplicated, but changing this critical list – the backbone of your company file – requires solid knowledge of which accounts should be added, deleted or changed. You also need to know which accounts and subaccounts will have impact on your income taxes. They must be structured accordingly.

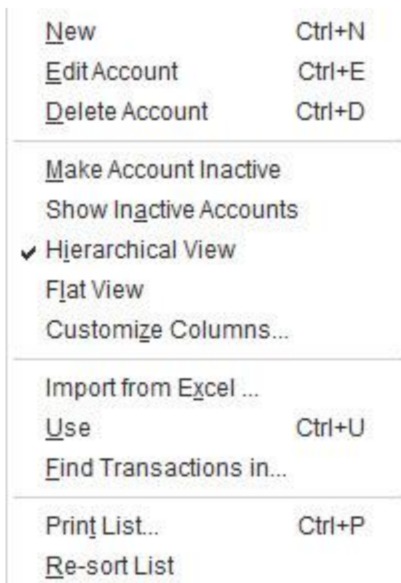

Figure 1: QuickBooks' default Chart of Accounts can be easily modified to meet your company's unique needs. But let us help you with this task.

For these reasons, we ask that you consult with us if you think your Chart of Accounts could use an overhaul. Our early involvement will be much more economical for you than if we have to come in down the road when your accounts have become dangerously tangled.

Devise an effective system for estimated taxes. As you well know, there's no magical formula for estimating how much income tax you'll owe when all of your income and expenses have been tallied. We can make this an ongoing task by creating monthly or quarterly financial reports for your business and working from those.

If you're self-employed, you might want to open a low-fee checking account that will serve solely as your tax fund. Because you have no employer to pay a portion of your Social Security and Medicare obligations, it's critical that you're putting enough away. Consider putting one-third of your taxable income into that account and see how it goes. You may get a pleasant surprise at tax prep time, or you may have to dip into other savings to be compliant.

Figure 2: You may want to set up a separate bank account to park estimated tax funds, so you know they're committed. Ask us about numbering new accounts.

You can submit federal payments online on the Electronic Federal Tax Payment System site. Check with us to see if your state has an electronic system. Of course, the IRS will accept a check.

Run reports on everything. And keep running them. We already mentioned that we're happy to create and analyze your most critical financial reports on a regular basis. You may have tried to understand the Trial Balance, Statement of Cash Flows, etc. in QuickBooks and been puzzled. Don't feel incompetent because of that: It often takes an accountant-level individual to understand what they mean for your business.

You can define and build your own reports using QuickBooks' customization tools. If you have employees who travel, consider bringing in an automated expense report application (we can help you find one and implement it). Stress the importance of adhering to IRS rules about travel. Same goes for your local salesforce, off-site technicians and other service providers, etc.

Profit & Loss Budget vs. Actual
January 1 through December 15, 2018

$ Over Budget	% of Budget	Feb 18	Budget
		3,150.00	
		0.00	
8,729.00	202.7%	12,420.00	8,500.00
-7,881.16	34.3%	6,539.00	12,000.00
-16,900.00	3.4%	2,738.00	17,500.00
-100.00	0.0%	0.00	100.00
		0.00	
-13,152.16	65.5%	24,847.00	38,100.00

Figure 3: Help your staff help you by involving them in budgeting and expense management.

For employees who come into the office every day or are telecommuting, you can give them some ownership of their contribution to expenses by bringing them into the budget process and/or requesting that they submit their own monthly mini-reports on any company funds they spend. The more employees are aware of and accountable for expenses, the easier it will be for you to work toward minimizing your tax obligation. And having some information about the considerable sum you pay in taxes may help staff understand your tightening of the purse strings.

Consider retraining accounting staff if necessary. You may be paying a portion of your taxes unnecessarily, simply because your company's bookkeeping is less-than-precise. Nip that in the bud.

The more you micro-manage your reporting, stay aware of the consequences of every expenditure and bring employees into the process, the more prepared you'll be for 2014 taxes.