



*IN A WORLD FULL OF NUMBERS,  
WHO CAN YOU COUNT ON?*

## In This Issue

Give your children a good financial education

Recordkeeping: How to get all that paper under control

Budget issues force IRS closures

Tax filing reminder

## AUGUST 2013

### IRS publishes 2014 HSA contribution limits

The IRS recently announced the inflation-adjusted contribution limits for health savings accounts (HSAs) for 2014. HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses. The 2014 contribution limit for individuals is \$3,300; the limit for family coverage is \$6,550. A catch-up contribution of an additional \$1,000 is permitted for individuals who are 55 or older.

### Medicare taxes can be harmful to your financial health

Two new Medicare taxes will inflict pain on the wallets of many higher-earning taxpayers, especially those with significant investment income. Knowing how these taxes are calculated might be your best remedy.

Single wage earners will have to pay an additional 0.9% Medicare tax on any pay exceeding \$200,000. This is on top of the 1.45% tax already owed under the previous rules. Joint filers will pay the extra 0.9% on combined wages exceeding \$250,000.

Your employer is responsible for withholding the extra tax, but they probably won't know how much your spouse earns. So if the salaries of you and your spouse individually are under \$200,000 but combined are over \$250,000, you will owe the tax when you file your return. This means quarterly estimated tax payments may be required.

The second new Medicare tax affects your investment income. You could pay an extra 3.8% tax on your interest, dividends, rental income, and capital gains. This is in addition to any capital gains or dividend income tax you might already owe.

Here is how it works. You first calculate your Modified Adjusted Gross Income (MAGI). The amount of MAGI that exceeds \$250,000 for a joint filer (\$200,000 for singles) is compared to just your net investment income. Whichever figure is smaller is multiplied by 3.8% to arrive at your tax. So it's possible that all of your investment income will be subject to the tax.

Now that you know how the new taxes work, here is how you can help avoid their impact. Before accepting any discretionary wages, watch the thresholds to see if you might owe the 0.9% tax. Minimize the 3.8% investment income tax by having as much of your portfolio in a tax-free retirement plan as possible. And keep your withdrawals from a regular 401(k) or IRA at a minimum to lower your MAGI. This might also be the time for a Roth 401(k) or Roth IRA. Withdrawals from these are never included in MAGI.

## Tax Planning Guide





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In a taxable account, consider investing in municipal bonds which pay interest exempt from the 3.8% tax. Try to unload stocks that have lost value whenever you sell appreciated securities to help offset net capital gains with losses. Having growth stocks that pay very little in dividends might also make sense. In the past, paying Medicare taxes was simple. Now these too require a little planning. Call our office for help in mitigating the painful effects of the new Medicare taxes.

### Can happy employees equal healthy profits?

It is said that living by the Golden Rule – treating others as you would like to be treated – pays dividends. Can this be true in a small business work environment too? Business owners are increasingly finding that treating employees well can boost profits.

Creating a contented workforce is simply a matter of maintaining your most precious business asset. This can benefit your company in three ways. First, it lowers employee turnover, which in turn lowers new-hire training expenses and flattens learning curves. Second, a well-treated employee is often a harder working employee, one who is more apt to put in the additional hours when needed. This extra effort can also help cement relationships with your customers as they discover that your employees will do whatever it takes to get the job done. And finally, gaining a reputation as a good place to work will naturally draw higher-quality job prospects.

So how can a small business with limited resources become an attractive place to work? The first step might be to just show employees you care. Offer your workers as many tax-favored benefits as is feasible. The rules keep changing, so you will need to stay current on the latest employment perks. Our office can help you with that.

Also, monitor company morale and routinely ask for employee feedback. When good ideas come from your rank and file, give them the proper credit. And as you become aware of special situations affecting the personal lives of your employees, consider helping them beyond what is required.

Another method for retaining good employees is regular investment in training. A solid core of well-trained employees not only maximizes company effectiveness and profitability, it sends an unmistakable message that your employees have a future with your company.

Fundamental to a contented workplace is a set of fair and consistent employment policies. Establish an employee handbook of rules to work by, and apply those rules to everyone in a consistent manner. Create written job descriptions and strive to communicate expectations clearly. And when your company is headed for big changes, keep everyone as informed as possible. An old business axiom, “never create more change than you can communicate” still holds true today.

Becoming a great place to work is not just the domain of Wall Street companies. Small businesses can also create favorable work environments. It just takes a little application of the Golden Rule.

### Look into energy credits

The IRS reminds taxpayers that certain energy credits are still available. If you haven't already taken advantage of them, this may be the year to make energy-efficient improvements to your home. You may be entitled to a credit of 10% of the cost of certain energy-saving improvements such as insulation, windows, doors, skylights, and roofs.

The credit has a maximum lifetime limit of \$500; the credit for windows is limited to \$200. Not all energy improvements qualify, the IRS cautions taxpayers, so be sure you have the manufacturer's credit certification statement (usually available with the product's packaging or on the manufacturer's website).

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*

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