

# LET'S TALK FINANCIAL WELLNESS<sup>®</sup>

November/December 2023

## Tax Planning: A Must for Your Business

How much do you understand about your business's tax situation? Simply filing taxes each year without first engaging in strategic tax planning could mean your business overpays its taxes. Your tax, financial and legal professionals can provide guidance with the big picture in mind.

### Why Hire a Tax Consultant?

While your accountant may have the expertise needed to file your taxes, he or she may have little experience developing a strategic tax plan. A professional tax consultant generally will know current bookkeeping practices and the ever-changing tax laws that affect your business and can help you develop a strategy that maximizes savings and business profitability.

When included in the planning process, your financial professional can offer an additional perspective and insight into your specific business situation.

### Moves To Consider

Reducing adjusted gross income (AGI) may result in a smaller tax liability. Here are steps you can take to help lower your AGI and manage taxes.

- ❖ Contribute to a retirement account for yourself and your employees.
- ❖ Contribute to a Health Savings Account (HSA) as part of a High Deductible Health Plan (HDHP).
- ❖ Invest in business insurance. Premiums are tax deductible.



- ❖ Offer employees fringe benefits, such as health, disability, and long-term care insurance; tuition assistance; childcare assistance; transportation benefits, etc.
- ❖ Develop a marketing plan. Advertising and marketing costs may be tax deductible.
- ❖ Charitable contributions made by your business may be tax deductible.

### A Limited Opportunity

The qualified business income deduction (QBI) allows eligible self-employed and small business owners to deduct up to 20% of their qualified business income. A professional tax consultant can help you navigate the complex rules and calculations determining your eligibility. QBI is scheduled to sunset in 2025, unless Congress acts.



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# Teach Your Kids the Value of Money

Kids tend to want almost every toy they see in the store or everything their friends have. While it's not always easy to resist giving your children everything they ask for, teaching them early to save for the things they want can make those items more valued.

## Give an Allowance

Even very young children can perform simple tasks around the house. A savings jar or a piggy bank can show them how much they're earning and how close they are to having enough money to buy the item they're saving for.

## Open a Savings Account

You can open a savings account for your child at just about any age. Kids' savings accounts typically require a parent or other adult to have joint ownership or control. Look for an account with no fees or minimum balance. Encourage your child to deposit birthday or holiday money or, when older, a portion of earnings from a job in the account.

## Set an Example

Your approach to spending can teach your kids that they need to save and budget for those expensive items they want. Sharing how you save for big-ticket items, such as a new car or a family vacation, can be an important lesson.



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# Age 18? They're Legally Adults

You might have a different opinion as a parent, but in most states, 18-year-olds are considered adults. That means you may no longer be able to make medical or financial decisions or access your child's records without your child's consent. Before heading to college or moving into an apartment with friends, your child should sign these basic documents, giving you a legal right to make health care and financial decisions on your child's behalf.



**Durable Power of Attorney** — authorizes you to make financial decisions for your child, including everyday financial tasks (good to have if your child is away at school) or if your child becomes incapacitated. It allows you to pay bills, file taxes, perform banking tasks, apply for government services, and more. It can also give you access to college records.

**Health Care Proxy** — authorizes you to make medical decisions if your child is incapacitated or incompetent and unable to make them. A health care proxy comes into effect only under these circumstances.

**HIPAA Release** — gives you access to your child's medical information. The release lets you speak to doctors concerning your child's health and view medical and billing records.

Keep these documents where you can easily access them. Parents should make sure they have these important documents for themselves as well.

# Adopt Healthy Money Habits

Your relationship with money may have its roots in your childhood. How your family handled their finances can affect your attitude toward spending and saving as an adult.

If your family saved responsibly for the things they wanted to buy, chances are good that you will, too. But, if your family squandered money and never saved, their bad money habits may be influencing how you handle your finances. Make sure you're practicing good money habits like the ones below.

## Examine Your Spending Habits

Buying small items, such as coffee and a bagel, every day on your way to work can add up to a substantial amount over time. Write down everything you buy over one or two weeks to find out how much you're spending. You might be surprised at the total. You can adjust your spending habits once you see where your money is going.

## Live Within Your Income

Paying with cash means you'll be able to spend only as much money as you have on hand. If you use a credit card, make sure you can pay off the balance when the bill comes.

## Pay Yourself

Treat your savings as a bill by putting money in your account every month before you pay anyone else. As your income rises, increase the amount you're saving.

## Follow a Spending Plan

Build a monthly budget based on your income and expenses. Remember to account for items you pay yearly, such as insurance or homeowner association.

# Plan for a Cash-only Holiday

Do you often find yourself still paying off holiday bills long after the holidays are over? Keeping spending under control can be difficult during the holidays, which is the reason using cash — not credit — is so important. Here are a few tips.

**Be efficient.** Make a list of people you're shopping for and the amount you intend to spend. Include ideas for gifts they've asked for or that you think they would like to help keep you focused.



**Use cash or a debit card.** You won't be able to spend more than you have on hand or in your account.

**Avoid the mall.** Sales might tempt you to buy items that aren't on your list.

**Shop from home.** Your favorite stores and online vendors have websites where you can order specific items you're looking for without the distraction of store displays.

# Tracking Holiday Debt

LendingTree, an online lending marketplace that allows borrowers to compare rates from multiple lenders, has been conducting an annual holiday spending survey for eight years. The chart shows the amount of debt Americans incurred over the holidays for every year through 2022.



Source: Annual LendingTree Holiday Debt Survey, December 2022

# Paying Taxes When You're Self-employed

Whether you have just started a side hustle or have been freelancing for years, filing taxes can present challenges. Here are some points to keep in mind..

## Your Business Structure

As a freelancer, you can set up your business as a sole proprietor or a Limited Liability Company (LLC). An LLC can be taxed as a sole proprietorship or as a corporation. You'll pay taxes on business profits in addition to self-employment taxes.

## Self-employment Taxes

If you're new to freelancing, you might be surprised to learn that you're on the hook for both the employee and employer share of FICA taxes. FICA tax equals 15.3% of income — 12.4% for Social Security and 2.9% for Medicare. If your income is greater than \$200,000 (\$250,000 married filing jointly/\$125,000 filing separately), an additional Medicare tax of 0.9% applies.

## Quarterly Tax Payments

Freelancers, small business owners, and independent contractors may have to make quarterly estimated tax payments to the IRS to avoid being subject to an underpayment penalty.

## New Reporting Requirement Threshold

In 2023, you will receive a 1099-K for any transaction settled through third-party payment networks (credit cards, debit

cards, etc.) once the total exceeds \$600. The amount doesn't have to come from a single transaction.

## Save on Taxes with a Retirement Plan

Self-employed individuals can reduce the amount of taxes they owe by contributing to a retirement plan. A SEP (Simplified Employee Pension Plan) has a high contribution limit — 25% of net earnings, up to \$66,000 for 2023.

A SIMPLE (Savings Incentive Match Plan for Employees) IRA allows you to put all your net earnings from self-employment into the plan, up to a total of \$15,500 in 2023. Individuals age 50 or older can contribute an additional \$3,500.

## Other Potential Deductions

These deductions can lower your tax bill: continuing education; vehicle expenses; home office expenses; internet and phone service; travel to business meetings and conferences; and interest on business loans. Financial and tax professionals who work with business owners can help you get organized.



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## ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

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1. Lets Talk Money - Business NovDec 2023  
Rule: FIN 2210

Our review is based on your representation that the final version of this communication will prominently disclose the name of the member, pursuant to FINRA Rule 2210(d)(3)(A).

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury  
Principal Analyst

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