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May Client Update Newsletter

Having a low tax bill doesn't happen by accident. The best way to keep as much of your hard-earned money away from Uncle Sam as possible is by having a tax planning strategy that you revisit throughout the year.

In this month's newsletter, we've got some tax planning ideas to consider as you head into summer. Also learn several tips to help you change your money habits, ideas to teach your kids about money and banking, and how to protect your digital footprint.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

Upcoming dates

- **May 12**
  - Mother's Day
- **May 27**
  - Memorial Day

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Start Your Tax Planning NOW!

Keeping your taxes as low as possible requires paying attention to your financial situation throughout the year. Here are some tips for getting a head start on tax planning for your 2024 return:

Review your paycheck withholdings. Now is a good time to check your tax withholdings to make sure you haven't been paying too much or too little. Use this online tool from the IRS to help calculate how much your current withholdings match what your final tax bill will be.

Action step: *To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer.*

Defer earnings. You could potentially cut your tax liability by deferring your 2024 income to a future year via contributions to a retirement account. For 2024, the 401(k) contribution limit is $23,000 ($30,500 if 50 or older); $7,000 for both traditional and Roth IRAs ($8,000 if 50 and older); or $16,000 for a SIMPLE IRA ($19,500 if 50 and older).

Action step: *Consider an automatic transfer from either your paycheck or checking account to your retirement account so you won't have to think about manually making a transfer each month.*

Plan withdrawals from retirement accounts to be tax efficient. Your retirement accounts could span multiple account types, such as traditional retirement accounts, Roth accounts, and taxable accounts like brokerage or savings accounts. Because of this, consider planning your withdrawals to be as tax efficient as possible.

Action step: *One way to structure withdrawals is to pull from taxable accounts first, and leave Roth account withdrawals for last. Another approach is to structure proportional withdrawals from all retirement accounts, which would lead to a more predictable tax bill each year.*

Net capital gains with capital losses. If you have appreciated investments you're thinking about selling, take a look through the rest of your portfolio to see if you have other assets that you could sell for a loss and use to offset your gains. Using the tax strategy of tax-loss harvesting, you may be able to take advantage of stocks that have underperformed.

> ***Action step:*** *Make an appointment with your investment advisor to look over your portfolio to see if there are any securities you may want to sell by the end of 2024.*

Tax planning can potentially result in a lower bill from the IRS if you start taking action now. Please call if you have questions about your tax situation for 2024.

The Psychology of Saving - How to Change Your Money Habits

Cutting expenses is often easier said than done. It's easy for somebody to say *Just cut your expenses! Stop getting a to-go espresso everyday!* Eliminating something from your monthly budget, though, may come down to figuring out the best way to change your spending *habits*. Here are several ideas that may help.

> **Build a list of named goals.** Getting motivated to save can seem like a chore when you're not saving for something specific. Consider writing down on paper two or three goals for something specific you want to save for, then open a savings account for each goal. For example, you could start a beach vacation fund, a college savings account, or a new golf clubs account.
>
> **Give your goals a visual element.** Bring your goals to life by creating something that lets you track each one as you save. This could be a savings spreadsheet that breaks down your goal into manageable chunks of weekly savings, or it could be a poster board with sections to fill in as you save money and get closer to your goal. Also print several images of what you want to buy and hang them up around your living quarters.
>
> **Always pay yourself first.** Set up automatic transfers to your savings accounts and pay yourself first. This ensures that your savings become a priority, and that you don't accidentally spend the money on other bills and expenses.
>
> **Immerse yourself in education.** Fill your mind with financial lessons you want to learn about. Read books, listen to podcasts, and read essays from financial experts to help you learn new habits surrounding saving and investing.
>
> **Make new friends.** Motivational speaker Jim Rohn said most people become the average of the five people they spend the most time with. If you're surrounded with people who are constantly struggling with money, it may be time to expand your social circle. Look for like-minded people by joining online groups centered on financial topics and attending money-related meetups in your area.

Ideas to Help Teach Your Kids About Money

It's never too early to start teaching your kids about money. By proactively explaining how money and banking work in the *real world*, you can help them begin their adult lives on solid financial footing. Here are some ideas.

Help kids to start earning money. Letting kids earn money is a good first step to learning positive financial habits. Teenagers can get a traditional job or line up babysitting work to earn some cash, whereas younger children can mow lawns, pick weeds, or do other age-appropriate household chores.

Open a bank account. Kids need a place to store any money they earn, as well as cash they receive for birthdays and holidays. Plenty of banks offer checking and savings accounts for children and teens, provided parents or a guardian are also on the account. This is also a great opportunity to teach how to balance a bank account every month.

Get a debit card for older kids. There are many teen checking and debit card options available today, including some free options. For example, Capital One offers a teen checking account option with no fees, no account minimums, and a debit card for kids.

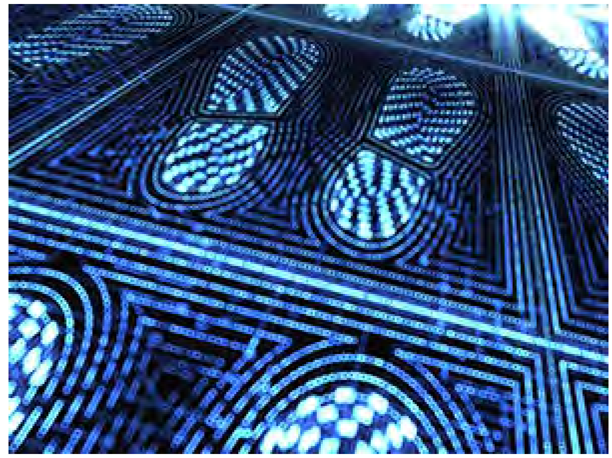
Help teenagers build credit for the future. You can add teenagers to credit card accounts as an authorized user to help them build credit history over time. Just remember that the impact on a teen's credit will only be positive if you pay bills on time and keep debt levels within a reasonable range.

Teach about investing. Kids with earned income can contribute money to their own IRA. There are also online apps for teenagers that can help them monitor their investments, such as the Greenlight app, which lets families manage money and research stocks and ETFs.

Teaching kids about money can give them a head start with being financially savvy. The lessons they learn can help them minimize debt, save more money, and potentially have enough money when they retire.

Protecting Your Digital Footprint

In today's digital age, it's impossible to avoid the internet. Even if you don't have a computer and actively avoid social media, there is information about you in some corner of the web. Here are some ideas to help you manage your digital footprint:



Actively manage your security settings. Every app, social media site and web browser contain multiple layers of privacy and security settings. When you download a new app or register with a new site, don't simply trust the default settings. Look through the options yourself to ensure you are comfortable with the level of privacy. One thing to watch for with apps on your phone is location settings. Some apps will track your location even when the app isn't running.

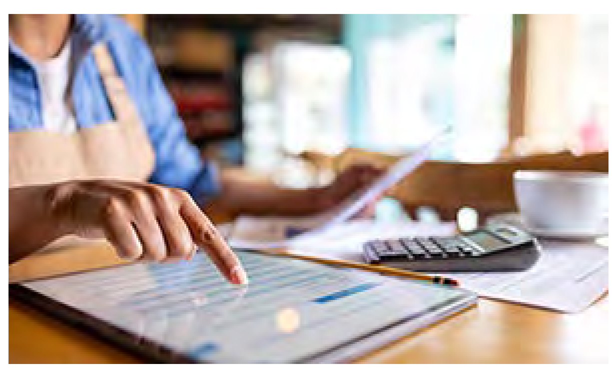
Protect your online image. Career search firms now have strategies built entirely around recruiting through social media. In addition to recruiting, human resource departments will vet prospective employees by reviewing social media profiles. Pay attention to what others post about you, as well. If you are uncomfortable with what they are sharing, have a conversation with them and ask that it be taken down.

Set boundaries for yourself. Try to find the balance that allows you to enjoy connecting with others online but doesn't negatively impact other parts of your life. In addition to time spent, draw a bright line between what you consider shareable versus personal information. If you have these boundaries in mind when on social media, it will help you think critically before continuing to scroll or posting something.

Know your friends. Be aware of who you are connected to on social media sites. Be cautious of accepting connection requests from people you don't know, as some of these requests could be a phishing attempt to swipe confidential information.

The best defense of your private information is you. Having a plan and actively managing your online profiles is the best way to minimize the chance of your personal data falling into the wrong hands.

The Benefits of Being a Sole Proprietor



Many start-up businesses move from hobby status to a business when they start to make a profit. The tax entity typically used is a sole proprietorship. Taxes on this business activity type flow through your personal tax return on a Schedule C. Here are some benefits to consider if you're trying to decide if being a sole proprietor is right for you:

You can hire your kids and decrease your tax bill. As a sole proprietor, you can hire your kids and avoid paying Social Security and Medicare taxes for their work. While there are exceptions, this can generally save your small business over 7.65% on their wages.

Your kids can benefit, too. Any income your kids earn that's less than $12,950 isn't taxed at the federal level. So this is a great way to build a tax-free savings account for your children. Remember, though, that their work must reflect actual activity and reasonable pay. So consider hiring your kids to do copying, act as a receptionist, provide office clean up, advertising or other reasonable activities for your business.

Fewer tax forms and filings. As a sole proprietor, your business activity is reported on a Schedule C within your personal Form 1040 tax return. Other business types like an S corporation, C corporation or a partnership must file separate tax returns, which makes tax compliance a lot more complicated.

More control over revenue and expenses. You often have more control over the taxable income of your small business as a sole proprietor. This can provide more flexibility in determining the timing of some of your revenue and business expenses, which can be used as a great tax planning tool.

Hire your spouse. If handled correctly, a spouse hired as an employee can work to your advantage as a sole proprietor. As long as the spouse is truly an employee of the business, the sole proprietor can benefit as a member of their employee's (spouse's) family benefits. This can include potential medical expense reimbursements.

Funding a retirement account. You can also reduce your business's taxable income by placing some of the profits into a retirement account like an IRA. As a sole proprietor, you can readily manage your marginal tax rate by controlling the amount you wish to set aside in this pre-tax retirement account.

It's not all roses. While there are many benefits of running your business as a sole proprietor, don't forget the drawbacks. One of the most significant drawbacks is the lack of personal legal protection, which is a feature in other business forms like corporations and Limited Liability Companies. Most sole proprietors address this with proper business insurance, so do not overlook the need to find coverage for yourself.

Please call if you have questions about your sole proprietor business.

Kids Can Be Expensive! Here Are Some Tax Breaks to Help.

Kids can pose challenges from every direction for their parents – feeding times, car seats, sleep schedules, strollers, child care, and of course...taxes! What most parents don't consider is that these bundles of joy complicate their tax situation. Here are some tax tips that may help:

Start a 529 education savings plan. 529 education savings plans are a great way to kick off the baby's savings for the future. These plans offer low-cost investments that grow tax-free as long as the funds are used to pay for eligible education expenses (including elementary and secondary tuition). States administer these plans, but that doesn't mean you are stuck with the plan available in your home state. Feel free to shop around for a plan that works for you. Starting to save early, even a little bit, maximizes the amount of tax-free compound interest you can earn in the 18+ years you have before kids go to college.

Bonus tip for family and friends: *Anyone can contribute up to $18,000 to the plan in 2024 for each child! In addition, there is a special provision for 529 plans that allows five years worth of gifts to be contributed at once — a great estate-planning strategy for grandparents.*

Update Form W-4. Every year, parents need to review their tax withholdings. Remember, the birth of a child brings new tax breaks, including a $2,000 Child Tax Credit, along with the Child and Dependent Care Credit for childcare expenses. These credits can be taken advantage of now by lowering tax withholdings and increasing take-home pay to help cover the cost of diapers and other needs that come with babies and children. On the other side of the coin, these benefits fall away as your kids grow older. The Dependent Care Credit is for children under the age of 13 and the Child Tax Credit is available for kids under the age of 17. So plan accordingly.

Prepare for medical expenses. Having a baby is expensive. So is watching your kids grow up! Fortunately, there are ways to be tax smart in covering the predictable medical and dental expenses. The first thing to do is try to pay for as many out-of-pocket expenses with pre-tax money. Many employers offer tax-advantaged accounts such as a Health Savings Account (HSA) or a Flexible Spending Account (FSA). So check this out and fund these accounts as much as possible. And while it's more difficult to claim medical expenses as an itemized deduction, it's impossible to do so if you don't keep receipts.

Having a kid can be expensive. Schedule a tax review today to make sure you're getting all the child tax breaks you deserve!

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

PAST ISSUES

April 2024	March 2024	February 2024	January 2024

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