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Minimum wage increases in Chicago and Cook County

July 1 marked an increase of the minimum wage in Chicago and Cook County. In Chicago the minimum wage for non-tipped workers increased to \$16.20 per hour, up from \$15.80 and tipped employees saw an increase of their minimum wage from \$9.48 to \$11.02 per hour. In suburban Cook County, the minimum wage rose to \$14.05 for non-tipped workers but remained \$8.40 per hour for tipped employees. In the rest of Illinois, the minimum wage rose to \$14 an hour on Jan. 1.

Additionally, July 1 marked the beginning of the Chicago Paid Leave and Paid Sick and Safe Leave Ordinance. This ordinance guarantees up to five days of paid leave and five days of paid sick leave for employees who work at least 80 hours within any 120-day period.

Avoid the Summertime Tax Blues with These Planning Tips

If you picked up a part-time job for some extra summer spending money, you may have to set aside some of your cash for taxes. Here are some tips to help you manage the taxes on your summer earnings:

- ✓ **Take advantage of tax-free earnings limits.** If you anticipate making less than the annual standard deduction (\$14,600 for single taxpayers in 2024), none of your earnings are subject to federal taxes! If possible, earn at least that amount each year to maximize your tax-free earnings. Remember, this only applies to earned income like your summer job. These rules do not apply to sources of income such as interest income or dividend income.

If your annual earnings will be less than the standard deduction, you can claim EXEMPT on your Form W-4 if you work part-time for a business. That prevents federal income taxes from being withheld from your paycheck. And don't forget to review state and local taxes and regulations.

- ✓ **Review the need to make estimated payments.** As an independent contractor, you are responsible for paying all taxes on your earnings. This is done by making quarterly

estimated tax payments to the IRS using Form 1040-ES. In addition to income taxes, contractors also need to pay self-employment taxes of 15.3% on earnings at the federal level. You may also need to pay estimated taxes at the state level.

Track your expenses and save receipts. By doing this, you can subtract eligible expenses like mileage and supplies from your gross earnings. Use this lower income number to calculate your self-employment tax and correctly estimate your quarterly income tax obligation.

- ✓ **Closely monitor tax withholdings.** As an employee, your employer withholds taxes based on what you claim on Form W-4. The tax tables used by this form to calculate your withholdings unfortunately do not account for seasonal jobs. This typically results in paycheck withholdings being too low for supplemental income workers and too high for students working during the summer.

If you anticipate earnings in excess of the standard deduction, request a revision of your withholdings. Use tools on the IRS web site, review last year's tax return, or ask for help to estimate the correct amount to withhold. From there, ask your employer to increase or decrease your federal and/or state withholdings.

With a little tax planning, you can ensure that your summer job or side hustle provides the income you're looking for without the disappointment of unexpected taxes.

Summertime Financial Lessons for Your Child

Children on summer break have plenty of free time on their hands, which is usually spent playing outdoors, working on summer projects and participating in various sports and clubs. As parents, you can also weave in financial lessons to these summertime activities to reinforce great money habits. Here are some ideas:

- ❖ **Earning money.** Teach entrepreneurship with a lemonade stand. You can show how some of the money earned from selling lemonade needs to be reinvested to purchase lemonade mix and other supplies. Explain concepts such as breakeven and profit by walking your children through how to calculate how much money needs to be earned to cover expenses, and to track the money left over after expenses have been paid.
- ❖ **Saving money.** Many children have big plans for summer vacation. But these plans cost money! Explain what you as parents will pay and what your child will have to pay. Encourage them to set a specific goal for what they want to buy, along with how much money they need to save. Then create something visible to track their goal, such as a thermometer that gets colored in as the amount of money saved increases.
- ❖ **Budgeting money.** Involve your children with budgeting for various summer activities. If you're going on vacation, tell them the overall budget for the trip and have them help you plan. When discussing lodging, for example, give them the choice of either staying at a fancy hotel, or downgrading the hotel and having money left over to go to an amusement park.

- ❖ **Spending money.** It's amazing how quickly you go through snacks. Summer is a great time for your children to go along to the grocery store to see how much their favorite snacks actually cost. Consider giving a snack allowance for however often you go shopping, then explaining that they can buy whatever they want with that amount of money. The only catch is the snacks your child decides to buy must last until your next shopping trip.
- ❖ **Borrowing money.** Lend your child a reasonable amount of money at the beginning of the summer to spend on whatever they want, but explain it must be paid back with interest. You could even arrange the loan to be paid in two or three installments. You can show your child how loans work, and that they're on the hook for making payments even if they don't have the money.
- ❖ **Investing money.** Whether its chores around the house, a part-time job, or a kid-appropriate business, make an offer to match whatever your child earns up to a certain amount. This could be done weekly, monthly, or at other intervals. This is a great opportunity to teach the basics of investing and how to make your money grow.

Six Simple Ideas to Help Your Small Business

Here are six ideas to help jump start improvements in your small business. As always, please reach out if you wish to discuss any of them.

1. Understand your cash flow. At the end of the day, you need enough cash to pay your vendors and your employees. If you run a seasonal business, you already understand this challenge. The high season sales harvest needs to be ample enough to support you during the slow non-seasonal periods. The goal is to look for ways to improve your cash flow forecast and make this exercise one that gives you ideas to improve your situation.

Recommendation: Create a 12-month rolling forecast of revenue and expenses to help understand your cash needs. Every month, add a new month to your forecast using current information. Identify months of cash challenges and get your plan together now to address them before they arrive.

2. Know your pressure points. When looking at your business, there are typically a few big items that drive your business success. Do you know the top four drivers of your financial success or failure? Try to stay focused on the key drivers of your business, as there will be numerous temptations to be buried in non-important tasks.

Recommendation: Look at last year's tax return to identify the key financial drivers of your business. Do the same thing with your day-to-day operations and staffing.

3. Inventory matters. You need a good inventory management system if your business sells physical products. This system doesn't have to be complex, it just needs to help you keep control of your inventory. Cash turned into inventory that becomes stuck as inventory can create a major cash flow problem.

Recommendation: Develop an inventory system with periodic counts to ensure you don't have shrink or theft issues. This can also help identify when you need to take action to liquidate old inventory.

4. Know your customers. Who are your current customers? Are there enough of them? Where can you get more of them? How loyal are they? Are they happy? Several large customers can drive your company's growth or create tremendous risk should they take their business to a competitor.

Recommendation: Know who your target audience is, then cater your business toward them and what they are looking for in your product or service offerings.

5. Know your point of difference. Once you know who your target customer is, understand why they buy your product or service. What makes you different from other businesses selling a similar item?

Recommendation: If you don't know what makes your business better than others, ask your key customers. They will tell you. Then take advantage of this information to generate new customers.

6. Develop a great support team. Successful small business owners know they cannot do it all themselves. Do you have a good group of support professionals helping you? This includes accounting, tax, legal, insurance, and employment help, along with your traditional suppliers.

Recommendation: Conduct an annual review of your resources. Be prepared to review your suppliers and make improvements when necessary.

Focusing on a few basic ideas like these can help improve your business's outlook. Please call if you wish to discuss your situation.

Retiring Early Catches on FIRE

Retiring early is an idea that an entire community of people across the United States is putting into action. It even has an official name – Financial Independence Retire Early, or FIRE. Read on to find out how it works. And who knows – maybe you or someone you know may want to try it!

How it started

The origins of FIRE started in the early 1990s when a former Wall Street analyst, Joe Dominguez, shared his story in the book *Your Money or Your Life* about retiring at age 31, never to work again, and have total financial independence. The ideas presented in the book became popular during the 2008 financial crisis when younger people started re-evaluating the historical practice of working a 9-to-5 job until age 65 or older. Many people identified with what Dominguez discussed in his book, especially doing things when they're younger rather than waiting for the golden years of retirement.

How it works

The FIRE concept is built on extreme saving and frugality in your early years so you can comfortably live with enough money well before the traditional retirement age of 65. Here are some of the basic rules:

- **Spend as little as possible.** Refrain from activities such as eating out, going on vacation, and purchasing brand name clothing. Focus on activities such as bunking with friends and riding your bike to work. You adopt (almost) anything you can to cut expenses.
- **Save as much as possible.** Once you identify the minimum amount of money you need to live comfortably in the present, save everything else. The goal is saving 50% to 70% (!) of your income.
- **Earn as much as possible.** Whether it's quickly climbing the corporate ladder, adding a side hustle, or making smart investments, maximizing income is the name of the game. Income-producing activities are also prioritized in place of most of your hobbies. The more you make, the faster you can get to your goal of financial independence.
- **Set a specific goal, then retire when you achieve it.** The idea is to get to your goal as fast as possible so you can retire in your 30s and 40s. Even if you're in your 30s, 40s or 50s right now, you can do a modified form of FIRE to retire as quickly as you can.

FIRE can become Coasting

While retiring early and having total freedom sounds great in theory, some people struggle with boredom and overspending after achieving FIRE. One option to consider if you find yourself in this situation is called coasting. Instead of completely retiring in your 30s or 40s, coasters simply downshift to a less demanding or more enjoyable job to continue earning money while also enjoying the benefits of financial freedom without the stresses of maintaining a certain income level.

While the FIRE movement isn't for everyone, you can adopt your own variation by saving as much as you can while you're working so you can enjoy some level of financial independence as soon as you can.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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