Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

June 2024

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You Need Tax Planning If...

Here are several situations where you may need to schedule a tax planning session:

Getting married or divorced. You could get hit with a marriage penalty in certain situations when the total taxes you pay as a married couple is more than what you would pay if you and your partner filed as single taxpayers. The opposite can also occur, when you benefit from a marriage bonus. This often occurs when only one spouse has a job or earns income in other ways such as a business. Another situation when tax planning becomes critical is if you and your future spouse both own homes before getting married.

If you're going from married to single, make the process include tax planning. Alimony is no longer deductible by the spouse making payments (for divorces after 2019), or taxable to the spouse receiving the alimony. Child support is not deductible by the spouse making payments, and isn't considered taxable income for the spouse receiving payments. In addition, not all assets are taxed the same, so their true value will vary as part of your divorce settlement.

Growing a family. You'll need a Social Security number for your newborn child. Your family's newest addition(s) also comes with potential tax breaks. These include breaks to help pay for child care or adoption-related expenses, the child tax credit, and the Earned Income Tax Credit.

Changing jobs or getting a raise. Getting more money at work is a good thing. But it also means a higher tax bill. So you may need to review your tax withholding to ensure there are no surprises at the end of the year. And when leaving an employer, expect a tax hit for severance, accrued vacation, and unemployment income payments.

Another potential tax problem if you get a raise or otherwise earn more money is that you may no longer qualify for certain tax breaks, as most tax deductions and tax credits phase out as your income increases. Consider scheduling a tax planning session to discuss the phase out thresholds that may affect you in 2024.

Buying or selling a house. You can exclude up to $250,000 ($500,000 if married) of capital gains when you sell your home, but only if you meet certain qualifications. A tax planning session can help determine if you meet the qualifications to take advantage of this capital gain tax break, or other home-related tax breaks such as the mortgage interest deduction or credits for installing qualified energy-efficient home improvements.

Saving or paying for college. There are many tax-advantaged ways to save and pay for college, including 529 savings plans, the American Opportunity Tax Credit, and the Lifetime Learning Credit. As you plan your future, understanding how these expenses can be managed often happens long before you begin your college journey.

At the end of the day, when in doubt please reach out. There is no reason to pay more than you need to and a simple tax planning session can make all the difference.

Prepare Yourself Financially When Purchasing a Vehicle

Financing a new or used car could spell big financial trouble if your vehicle is ever declared a total loss – even if the accident is 100% the other driver's fault. Here's what you need to know about staying safe financially if you take out a car, truck, or SUV loan in the future.

Background – The 80% Rule Many Americans believe if their vehicle is declared a total loss following an accident, insurance companies will provide enough money to cover the cost to replace the vehicle with a similar vehicle. The truth, though, is that insurance companies never provide you with enough money to buy a true replacement vehicle.

The rule of thumb to use when planning is 80%...if the true cost to get the exact same vehicle you were driving before an accident is $30,000, your insurance will only give you 80% of this dollar amount, or $24,000. You'll have to come up with the other 20%, or $6,000 in this example.

Why not 100%? Unbeknownst to most of America, the valuation of vehicles deemed a total loss is determined by one company, CCC Intelligent Solutions. Per CCC, their services are used by most of the top 20 insurance companies. Instead of using a fair market valuation method to calculate the replacement cost of your vehicle, CCC uses a model that calculates a value that, when compared to valuation models found at Kelly Blue Book, Edmunds, and NADA, is systemically low.

How to Protect Yourself Financially
Here are some ideas to help you stay financially healthy when purchasing your next vehicle:

- **Put down at least 20%.** An unavoidable accident, even with no medical bills, could place your financial life in chaos. So try to have at least 20% equity in the vehicles you own from the moment you make the purchase or your loan will be underwater leaving you with no room to replace your vehicle with a similar make and model.
- **Get a vehicle history report.** Don't buy a vehicle that's been in an accident or has had other major issues such as flood damage. Buying a vehicle history report can help you identify cars, trucks, & SUVs that may create an even greater financial risk if you need to find a replacement.
- **Build a fund for vehicle repairs and maintenance.** Save up for inevitable maintenance and vehicle repairs. You could even use these funds to cover your 20% portion of a vehicle’s replacement cost. Having enough money in this fund is critical. If you need to repair a car after a fender bender AND you do not have enough to cover your share of the cost, you will need to deal with the lender who has a lien on your vehicle. You can quickly find yourself in a financial trap.

- **Choose shorter repayment terms.** While the average car loan length is now well over five years for both new and used vehicles, choosing a shorter repayment term can help you build equity faster. You'll have a higher monthly payment, but you'll be in a better financial situation sooner in the event of an accident.

Debt Management for Business Owners

Would you be surprised to learn that many small businesses carry debt? If you're a business owner, it may not shock you that **71% of small businesses hold outstanding debt**, according to the 2024 Report on Employer Firms issued by Fed Small Business.

While debt may be necessary, it's important that it's carefully managed with the help of a financial professional.

Understand your business debt

There are several common types of debt, including:

- **Short-term:** Typically used to cover short-term operating expenses. It can come in the form of lines of credit, short-term loans, overdraft protection and merchant cash advances. The debt is repaid within a short period, usually about a year.
- **Long-term:** Often used to finance capital investments, like vehicles, equipment or real estate. It typically carries an extended repayment period. Examples include term loans, bonds, mortgages and equipment financing.
- **Secured:** A loan or credit backed by collateral, such as property, inventory or equipment. It presents less risk and typically has lower interests. However, if businesses fail to make payments, assets used as collateral can be seized to recover the amount owed.
- **Unsecured:** Not backed by collateral; usually more challenging to obtain. Rates are generally higher. Offered in the form of traditional term loans, lines of credit and business credit cards.

How to reduce debt

If your business carries recurring debt, you'll want a debt management plan. This plan can include strategies to:

- **Assess your current debt situation.** Look at all your business liabilities, including bank loans, business credit cards, lease obligations, contracts, business taxes or employee-related liabilities (e.g., wages, benefits, pension, retirement).
- **Set debt reduction goals.** Determine the amount of debt you want to pay off in a specified timeframe. Be realistic, based on your budget and income.
- **Renegotiate terms.** Work with your lenders to negotiate more favorable terms for your debt. Options may include lower interest rates, extended payment terms or temporary payment relief.
- **Consolidate loans.** If available, consolidation can simplify your debt management and may lower interest costs.

Ways to stop debt accumulation

As you work to reduce your debt, it's also important to see where you can cut costs so you can remove—or diminish the need for—more debt.

- ✓ **Develop (or adjust) your budget.** Implement a strict budget; adjust spending accordingly.
- ✓ **Increase revenue streams.** Are there areas of your business where you can raise prices or introduce a new product or service?
- ✓ **Improve invoicing and collections.** Ensure you're invoicing on time and following up on overdue payments.
- ✓ **Cut unnecessary expenses.** Review expenses and see where you can eliminate non-essential costs.
- ✓ **Avoid unnecessary borrowing.** Before considering a significant purchase or investment, research the ROI and decide whether a new loan is worth it.
- ✓ **Conduct financial reviews.** To stop debt accumulation and overspending, regularly review your financial status. This keeps you on top of spending and helps avoid unnecessary debt.

When bankruptcy is the only option
If your business carries too much debt and there's no end in sight, bankruptcy may be necessary to reduce your business debt burden. If it comes to this, you have two options:

- **Chapter 7**: A Chapter 7 business bankruptcy is administered by a bankruptcy trustee who sells your business assets, tries to retrieve outstanding accounts receivable, pays owed taxes and distributes any remaining funds to your creditors. It eliminates any personally guaranteed business debts and provides you with a clean break from the failed business. But your personal credit rating takes a massive hit—which stays on your record for seven years.
- **Chapter 11**: A Chapter 11 bankruptcy allows your business to reorganize debts and restructure finances to pay bills. Your business continues to operate, and calls from debt collectors cease in the short term. If you have assets worth less than your debt, bankruptcy may allow you to pay only what the assets are worth instead of the balance due. Chapter 11 is costly, requires a bankruptcy attorney and can take several years.

Consult a professional
Effective debt management is crucial for business owners, but you shouldn't do it alone. Work with a qualified professional who can guide you through strategies to navigate debt efficiently and keep your business on a path to financial health.

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