Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

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In This Issue

- Start Your Tax Planning Now
- Ideas to Help Teach Your Kids About Money
- Protecting Your Digital Footprint
- The Benefits of Being a Sole Proprietor

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.

  To change how much is withheld from your paycheck in taxes, fill out a new Form W-4 and give it to your employer or update using your company's payroll portal.

- **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).

  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.

  There are a number of tax efficient strategies, depending on your tax situation.

- **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.

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.

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. Many banks have low limit credit cards for college students to get started with credit.

- **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 exchange-traded funds.

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.

- **Lack of legal protection.** 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.

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