ClientLine®

September 2019

THAT'S LIFE

When you buy life insurance, you plan for the worst and hope for the best. During this Life Insurance Awareness Month, consider the many reasons to own and periodically review this important financial protection.

BASIC PROTECTION

Life insurance in this country is as old as America itself, and it has roots going back to the ancient Greeks and Romans. Today, as then, life insurance is a way to minimize a family's financial risk when their breadwinner is no longer here to provide for them.

Growing families, in particular, need the financial protection life insurance offers. From replacing lost income and providing money needed to pay off a home to funding childcare and lifestyle costs, life insurance can financially protect your family's way of life if the unthinkable occurs.

Even retirees may want this protection if they still have minor children, have a disabled adult child or expect their beneficiaries will owe estate taxes. Life insurance, incidentally, is typically income tax-free.

LEGACY FUNDING

Beyond basic protection, life insurance provides a vehicle to achieve other financial goals. With life insurance, you can leave a financial legacy for loved ones or to a favorite charitable organization.

EXTRA INCOME

Policy owners with whole life insurance can potentially supplement their income with its cash value, although this can reduce the policy's death benefit. Still, the tradeoff may be acceptable for a retired couple with smaller life insurance needs.

FINANCING TOOL

Business owners have long used life insurance as an efficient way to help fund buy-sell agreements between partners, to help fund family succession to the business and to equalize estates for family members who opt not to participate in the family business.

Talk to your tax professional to learn how life insurance can impact you and your family's finances.

Karen Petrucco
Account Manager

LTM Client Marketing, Inc.
125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780

kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

More Go Solo

More than 25.5 million taxpayers who filed individual 2016 income tax returns reported non-farm sole proprietorship activity. That's a 1.2% increase from 2015. Total profits from non-farm sole proprietorships decreased 2.4% during this time, although total profits as a percentage of business receipts were 23.1%, the second-highest level in this data series that began in 1988.

Self-Employed

The IRS defines non-employer business as subject to federal income taxes with annual business receipts of $1,000 or more ($1 or more in the construction industries) and no paid employees. Most non-employers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's principal source of income.

Talk to a tax pro about ways you can reduce taxes if you have self-employment income. Newer tax laws, including the pass-through provision, could help the self-employed reduce their tax liability.

IS FIRE RIGHT FOR YOU?

A relatively old idea with a new name is gaining increased interest among Millennials. Proponents of FIRE — Financial Independence, Retire Early — work toward early retirement by reducing spending during their working lives to build the funds needed for future financial freedom. While this austere, strict saving philosophy may not be for everyone, some of its principles may help those looking to meet ambitious financial goals.

FINANCIAL INDEPENDENCE

The first part of FIRE — financial independence — is the main goal of its proponents. Independence doesn't necessarily mean retirement, but rather the financial ability of FIRE followers to use their time as they see fit, whether to travel the world, volunteer or open their own businesses.

For most of us, our goals are more traditional. We may want to save for a nice home, a child's college education and a comfortable retirement, the latter perhaps near normal retirement age instead of in our 40s. FIRE's personal finance practices can still help you reach these goals.

GOOD PRACTICE

You can use FIRE principles without brown-bagging your lunch for eternity by first defining a financial target. Next, identify and pay off your highest-interest debt, working toward being as debt-free as possible.

Go through your budget and identify where you can spend less. How much you sacrifice should correlate with how important your goals are. Maybe you don't need to keep your car for 20 years, but an extra couple of years without car payments can help.

At the same time, you might consider earning more via overtime, a second job or gigging, and putting this money toward your most important goals. Save as much as possible early on to take advantage of time and compounding, and do it in tax-deferred vehicles when possible.

Client PROFILE ••••

Rick used to offer a Flexible Spending Account (FSA) to employees, but discontinued it after establishing a Health Savings Account (HSA). Now his employees are asking for the FSA, in addition to the HSA, to cover dental and eye care expenses. Can he do both?

Yes, Rick can offer both, but with a catch. He can offer an HSA to employees with high-deductible health plans, who can save pre-tax to pay qualified medical expenses including deductibles, copayments and coinsurance. An FSA can do the same for employees with any health plan, but only when employers do not offer an HSA.

Since Rick does offer an HSA, he can offer a limited-purpose FSA. This tax-qualified savings plan can be used for dependent care expenses, either childcare or eldercare, or for limited healthcare expenses such as dental and eye care.

In 2019, employees can save up to $2,700 in an FSA for health care, which they typically can't carry over year to year, and families can save up to $7,000 in an HSA, which they can carry over. Other differences exist, so Rick should talk to qualified tax and insurance professionals to learn more.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

WHAT'S MY LINE

Does your business have a line of credit (LOC)? If not, does it need one? If you're a newbie when it comes to this financing vehicle, here's what you need to know.

WHAT IF?

Your business may run fine without a line of credit, but that doesn't mean you won't need one if a future opportunity arises or a temporary financial crisis occurs. A business LOC is typically unsecured and usually available for any business reason. Interest rates may be lower than for a standard business credit card, but are often higher than for a business loan.

The major difference between a loan and an established LOC is that the latter is available without having to wait. That ready money can be helpful if, for example, you find an "act now" deal on supplies or you have a spur-of-the-moment marketing or business development opportunity. An LOC also helps pay bills when business unexpectedly slumps, such as during a stretch of bad weather.

WHO QUALIFIES

Your business may qualify for an LOC if you have a good personal credit score and the business has been in operation at least a year or two and can demonstrate a consistent income flow. Talk to your accounting professional to learn if an LOC can help your business.

MEET THE SIMPLIFIED EMPLOYEE PENSION (SEP)

With open enrollment season upon us and the end of the tax year coming for most businesses, now is a good time to explore your company's current or future retirement plan options. For sole proprietors and smaller businesses, a Simplified Employee Pension (SEP) is often among the most attractive options.

BIG LIMITS

While small business owners have other options, few offer the generous limits of the SEP. In 2019, you can contribute up to the lesser of 25% of employees' annual compensation or $56,000, indexed to inflation. If you are a sole proprietor, your compensation is determined by your net earnings from self-employment. Consult your tax professional.

QUALIFICATIONS

In this nonelective plan, employees must receive an employer SEP contribution if they are at least age 21, have worked for the company at least three of the past five years and will be paid at least $600 this year. Plans are allowed to have less restrictive requirements to include younger or newer employees.

FLEXIBILITY

Employers do not have to make a contribution to the plan every year, as is required by some other qualified retirement plans. Additionally, startup and administrative costs are very reasonable.

....Q&A

Q **I've owned a small business for a couple of years and recently hired my first employees. I would like to offer them health insurance, but I'm unsure I can afford it. Is it true I can get a credit by offering a health plan for the first time?**

A Possibly. The Small Business Health Care Tax Credit is a credit of up to 50% of your employees' premium costs if you provide them with a qualified health plan from a Small Business Health Options Program (SHOP) marketplace. One exception to the requirement is if you don't have a SHOP marketplace plan available in your area. You can only claim the credit for two consecutive years and other rules and restrictions apply.

Q **My husband insists we should fill out a FAFSA form for my daughter's upcoming first college year, but I think we make too much to qualify for aid. Should we?**

A Why not? You might be surprised, and you have nothing to lose by filling out a Free Application for Federal Student Aid (FAFSA). Generally, the higher a family's income, the less available financial aid may become. However, having to pay college tuition for two or more children simultaneously and other circumstances may help parents with higher incomes qualify.

ClientLine® SHORT BITS

> **2020 HSA LIMITS.** The IRS has released inflation-adjusted limits for Health Savings Accounts in 2020. The annual limitation on deductions for individuals with self-only coverage under a high deductible health plan (HDHP) is $3,550. The contribution limit for employees with family coverage under an HDHP is $7,100. The increases are $50 and $100, respectively.

The IRS defines a "high deductible health plan" as a health plan with an annual deductible that is not less than $1,400 for self-only coverage or $2,800 for family coverage. It limits annual out-of-pocket expenses such as deductibles and copayments to $6,900 for self-only coverage or $13,800 for family coverage. These figures are small increases from tax year 2019.

> **INCOME UP.** Americans' personal income continues to rise, according to figures from the U.S. Bureau of Economic Analysis (BEA). Personal income increased 0.5% in April, according to the Bureau's estimates. Disposable personal income increased 0.4% and personal consumption expenditures rose 0.3% during the same timeframe. Income increases were primarily seen in personal interest, wages and salaries, and government social benefits. The same April BEA report showed that Americans' personal savings rate was 6.2% of disposable income.

> **GREYER WORKFORCE.** The number of older Americans in the workforce continues to increase, according to the Bureau of Labor Statistics. The participation rate for workers ages 65 to 74 is projected to be 30.2% in 2026, compared with 17.5% percent in 1996, while workers age 75 and older are expected to participate at a rate of 10.8% in 2026, up from 4.7% in 1996.