ClientLine®

March 2020

FINANCING YOUR BUSINESS

Many small businesses depend on access to financing in order to grow, but their financing options will vary. Here's what you need to know if you're exploring how to finance a business need.

GETTING STARTED – Before approaching any financing source, make sure you have your house in order, financially speaking. This means clearly detailing your financial need and projected cash flow, income and expenses. Understand that not all financing sources will agree with your definition of ability to pay, so you may want to explore some alternatives outlined below.

BANK LOAN – A loan or line of credit from your local bank is normally your best option, but it's the most difficult to obtain. You will likely have to show a business plan, profit and loss statements, a cash flow statement and believable projections that demonstrate a track record of success.

FACTORING – You'll also need to show a track record of sales success if you want to use factoring, which is typically for short-term cash flow needs. Factoring companies buy accounts receivable.

LEASING – If you own business equipment, you may be able to sell it back to the supplier and then lease back the same or newer equipment, freeing up cash.

CROWDFUNDING – Businesses (and individuals) can raise varied amounts of money from many donors via crowdfunding sites like Kickstarter and GoFundMe in exchange for a product, service or a small piece of the company.

PARTNERING – You could seek a large amount of money and needed expertise by offering an equity stake to the right investor.

PERSONAL FUNDS – The option of last resort: Using your personal funds and credit can provide the short-term money your business needs, but at a potentially high cost.

GET HELP – Find a mentor who understands your business, and don't forget to tap your tax professional for help.

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More Savings!

If you missed the announcement of higher retirement plan limits for 2020, here's another look at some of them.

Work Plans

The annual limit for defined benefit plans rose from $225,000 to $230,000, while the combined (employer/employee) annual limit for 401(k), 403(b) and most 457 plans rose $1,000 to $57,000. The latter limit includes a $500 increase to $19,500 for employee contributions, and catch-up contributions, which also rose from $6,000 to $6,500 for those at least age 50. Limits for top-heavy retirement plans and employee stock ownership plans also increased.

IRAs

The income limit to qualify for tax-deductible IRAs also increased for 2020. A couple with neither spouse participating in a workplace plan qualifies for a full deduction up to $196,000 of joint annual income, up $3,000. Other tax filers also saw increases in income limits. Contribution limits stay at $6,000 annually (plus another $1,000 catch-up).

LOAN CONSEQUENCES

If your company offers a 401(k) plan loan, it can be among your most cost-effective options for short-term needs (five or fewer years). However, these loans come with potential drawbacks. Before you take money from your 401(k), understand all the consequences.

THE BASICS

Not every 401(k) plan will allow loans, but the majority that do will have limits – typically no more than 50% of an account balance. Loans are potentially better for your bottom line than withdrawals, because doing the latter could trigger early withdrawal penalties.

Still, a 401(k) loan could be better than the alternatives, with potentially lower interest rates and automatic deduction of loan payments from your paycheck. Additionally, it won't require a credit check.

However, a 401(k) loan can cause some unintended consequences outlined below.

DRAWBACKS

One drawback is two-pronged: The amount of your loan will miss out on potential growth, while your paycheck will be lighter by the amount of your repayment until the loan is paid in full. The second drawback is more problematic. Whether you lose your job or leave it voluntarily, you will still have to repay the loan.

Many plans will require payment in full before you separate from employment. If you don't have the money to pay the entire loan, your plan administrator will deduct the amount from your account balance. This will create tax problems, as the IRS will see this repayment as a distribution with accompanying early withdrawal penalties and income tax due.

Discuss with your financial and tax professionals whether any loan is a necessity, as well as other alternatives, before you take a 401(k) plan loan. Be sure to consider how this or any loan may affect your long-term savings strategy.

Client PROFILE....

Elijah is an employee of a technology company and also has his own company on the side. He has contributed to a 401(k) plan for each job. Now he learned he contributed too much and could owe penalties. What should he do?

First, Elijah should be congratulated for his savings discipline. The earlier you put money into a retirement plan, the more time it has to potentially grow. However, Elijah did a little too much of a good thing. In 2019, he was allowed to contribute up to a combined $19,000 annually, plus catch-up contributions up to $6,000 if he was at least age 50 during any part of the tax year.

If his excess contributions happened in 2019, he still has until his tax filing deadline to distribute his excess contributions plus earnings on the excess to fall within the limit. If he doesn't take these steps before the deadline, Elijah will owe taxes on the excess, plus he won't receive basis in the excess deferrals. One final, taxing reminder: The excess deferrals left in the plan will be taxed again when distributed.

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

TAXES, RETIREMENT AND YOU

Many people nearing retirement consider moving to Sunbelt States like Florida and Nevada for both the weather and lack of state income taxes. However, all states have a variety of taxes, so look beyond income taxes and then take another look at your total tax picture.

TAXES ANYONE?

State income taxes aren't the end-all. In addition to income taxes, states levy taxes on general sales (although some may exempt food or clothing), real estate, rooms and meals, utilities, and even inheritances and estates. So it's important to weigh all of these factors and figure how each tax may affect you.

For example, you may plan to rent and not care about high real estate or school taxes. Maybe you're spending down your estate so you don't care about taxes in this area, either. Conversely, you may have relatively little income but own expensive real estate, so property taxes will matter more than income taxes.

EXEMPTIONS

Look beneath the surface for a clearer picture of a state's taxes. Some states with the highest income tax rates, for instance, may exempt Social Security and retirement plan income up to certain limits. And don't kid yourself: Every state has to levy taxes somewhere to keep running, so do your homework to learn which ones might affect you most.

A PRIMER ON EXCISE TAXES

The sheer number of taxes companies must pay surprises many new business owners. They can be assessed for unemployment, Social Security and a variety of excise taxes, to mention a few. The latter affects businesses dealing with everything from sports wagering and gasoline to indoor tanning and tire sales. They are imposed by some states as well as the federal government.

Whether you're a new business owner or plan to start a company, you need to understand excise taxes.

FOR BUSINESSES

On the federal level, you're probably familiar with excise taxes on tobacco and alcohol, but they are also imposed on a variety of products and services. Although these taxes are normally priced into what consumers pay, businesses need to break their sales down to report and pay excise taxes quarterly.

Use Form 720, the *Quarterly Federal Excise Tax Return*, to determine your tax liability. If you need help either with filing or establishing recordkeeping to keep track, work with your tax professional who is experienced in this area.

CONSUMERS, TOO

Remember that business owners are consumers, too. In addition to paying these stealth taxes built into the pricing, consumers may also have to pay state excise taxes directly on purchases of vehicles, real estate and more.

.... Q&A

Q **I want to keep my affairs private, but I don't want to give up the control that happens with some trusts. How can I maintain control and privacy?**

A One way is to establish a revocable living trust, a legal document that lets your beneficiaries avoid the public glare of probate. Like a will, a living trust names beneficiaries and instructs a trustee how to disburse your estate. You can change its terms any time during your life. Unfortunately, this trust won't shield your assets from creditors or estate taxes. An irrevocable trust can achieve both of those objectives, but won't grant you the flexibility of a living trust.

Q **I'm ready to get new business equipment and I'm torn between leasing and buying. How do I choose?**

A You will have personal considerations, but we can offer some generic information that may help. Leasing is a good option if money is tight, especially if you can find a lease with a purchase option that lasts long enough for you to consider buying. Owning the equipment usually comes with tax advantages, including a choice between writing off the cost all at once or over the life of the purchase, but this can restrict your cash flow. The choice is yours.

ClientLine® SHORT BITS....

> WHAT RETIREMENT?
According to a survey by The Harris Poll for TD Ameritrade, most Americans age 40 and older intend to work past "retirement." The poll found that 92% of respondents age 40-49 planned to work in retirement, while 66% of respondents in their 60s and 52% of those in their 70s said the same. Staying sharp, avoiding boredom, financial need and social interaction were the most common reasons cited for returning to or staying in the workforce.

> CHARITY CHECK
Companies that rate the cost-effectiveness of charities can be of immense help to charitable donors, and now they have a new player on the block. ImpactMatters is a new ratings organization whose website breaks down the most cost-effective charitable institutions by categories addressing the climate, poverty, education and more. The ratings use a star system, with five stars ranking the highest.

> PRODUCTIVITY UP
The U.S. Department of Labor's Bureau of Labor Statistics confirms what businesses have known for some time now: From the third quarter of 2009 to the third quarter of 2019, nonfarm business sector labor productivity increased 11.1%, an increase in output of 32.4% and a 19.2% bump in hours worked. Real hourly compensation also increased by 8%.

> GREY MONEY
The Joint Center for Housing Studies of Harvard University found that the number of older Americans facing housing cost burdens reached an all-time high of 10 million. Homeownership rates are lower and debt rates are higher for those surveyed age 50 to 64 compared to earlier generations. The median income for the lowest earners was $14,400, lower than the 2000 level of $17,100.