

ClientLine®

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SAVE TAXES ON RETIREMENT PLAN WITHDRAWALS

Tapping your retirement accounts before age 59½ usually comes with a 10% early distribution penalty, in addition to any income tax that's due. But if you must make an early withdrawal, the IRS allows a few exceptions from the penalty.

MEDICAL EXPENSES

If you have large medical expenses that your health insurance doesn't cover, you can withdraw money from a 401(k) plan or traditional IRA to pay these bills. However, these medical costs must be greater than 10% of your adjusted gross income to avoid the 10% penalty.

Also, you can take withdrawals from a traditional IRA to cover health insurance premiums paid while unemployed. There are several conditions that need to be met to avoid the 10% penalty in this situation, so speak with your tax professional beforehand.

DISABILITY

Becoming disabled and unable to work means you may be able to tap

your tax-deferred retirement accounts without the 10% penalty to provide income that supplements your Social Security Disability or Supplemental Security Income benefits. You'll need your physician to document and substantiate your disability to avoid the penalty.

HOMEBUYERS

If you are buying or building your first home, you can withdraw up to \$10,000 — if you're single, or \$20,000 — if you're married and both have a traditional IRA, without paying the 10% penalty.

HIGHER EDUCATION

Pulling contributions out of a Roth IRA to pay for higher education expenses for you or your dependents is always penalty-free. But withdrawal of Roth IRA earnings will be subject to the penalty if you don't meet the exception requirements.

AVOID WITHDRAWALS

Being fully prepared for retirement requires financial planning and leveraging tax savings and the time value of money. Consider other cash sources like taxable brokerage accounts.



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YEAR-END BONUSES AND RETIREMENT ACCOUNTS

As the fourth quarter of 2022 is upon us, you may consider providing annual bonus payouts to your employees. It's a great way to thank them for their hard work.

Once you settle on the bonus amounts, consider notifying each employee before you make the payments to provide them with a choice as to how they prefer to receive the funds. They could choose to take it as regular income or invest it in their retirement account.

If your company already has a 401(k) plan, depositing their year-end bonus will function like any other payroll deductions you make on their behalf.

If your employee has already maxed out their 401(k) contributions for the year, you may be able to send their bonus to their IRA.



CLIENT PROFILE

Katherine's parents are 80 years old, and she's taking on more and more caretaking duties for them. Besides looking after their physical well-being, she's becoming more involved in managing their financial affairs. What are some things she should pay attention to?



If her parents do not yet have an estate plan, or at minimum a will and powers of attorney (financial and healthcare), Katherine needs to help them get this done. Assuming they designate Katherine as power of attorney, she'll then be able to make decisions on their behalf should they become incapacitated.

Katherine should also ask them to list their financial information and contacts. The list should include all accounts and account numbers, the usernames, passwords, and the location of all important documents, including tax filings. Don't forget to include their Medicare, Social Security, and driver's license numbers. Also, she needs to know how insurance premiums and other bills are paid.

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

MAINTAINING PROFITS DURING A BEAR MARKET

How we prepare our businesses for another potential bear market can mean the difference between thriving or struggling. Let's revisit some keys to maintaining a financially viable company when the economy is slowing.

SAFEGUARD CASH RESERVE

Have a contingency plan to maintain cash reserves. You may aim to save 10% of your business cash in a high-yield savings account for unforeseen cash crunches. This way, you can avoid relying on lines of credit from your bank with high interest rates.

BACKUP PLANS

Have backup plans in case a critical supplier goes offline, faces unexpected delays, or increases prices excessively, which would impact your profits. Securing secondary options for critical supply chain components is playing it smart.

EXPANSION LIMITS

Although you may have plans to expand your product or service offerings or increase your geographic market reach, consider whether the return on investment will warrant the capital needed to make the growth a success. It may make sense to move forward or to wait out the economic slowdown. Moving too fast right now could over-extend your operation and unforeseen circumstances may catch you off guard. Keep your eye on outside factors that are out of your control (inflation, unforeseen lockdowns, shipping delays,



unexpected rising costs, cooling market sentiment, etc.).

RAISE PRICES

It might sound counter-intuitive to raise your prices in a slowing economy, but you'll need to fight inflation and cover the increasing costs of goods sold that are shrinking your gross margins.

Consider bundling products together to help justify a price increase in your customers' eyes. Optimizing your average order value will raise transaction amounts.

CUT BACK

Be sure to cut excess expenses. That might mean targeting your marketing to your top-performing channels and tabling the rest for the foreseeable future.

Perhaps you'll need to manage your business with fewer of the employee perks, like free lunches and keep tabs on travel, meetings, etc.

“Money Grows on the Tree of Persistence.”

Japanese Proverb



SMALL BUSINESS LOANS

Take the guesswork out of securing a business loan. Whether it's to fund expansion or purchase equipment, being prepared can speed up the process.

CHECK YOUR SCORES

Unless you own an established company, lenders will check your personal credit score when making business lending decisions. An individual score greater than 700 increases the odds that you will be approved. Business credit scores

generally range from 0 to 100. So, the higher, the better.

HAVE A PLAN

Prepare a business plan because lenders will ask what you will do with the loan proceeds to increase your company's profits. Explain your business strategy and include current and historical financial statements that contain a balance sheet and cash flow statement.

OFFERING SECURITY

Depending on the size of the loan you're seeking, the lender may ask for collateral or a personal guarantee. The collateral could be equipment, receivables, real estate, or other businesses you own. And the personal guarantee states that you will pay the loan if the company doesn't.



MAXIMIZE YOUR FSA

With the end of the year approaching, review your health care flexible spending account (FSA) to ensure you get the most out of it.

ROLLING OVER

Check to see if it allows money in your account to be rolled over and used in 2023. Some plans may allow a limited amount, usually no more than \$500, to roll over. In comparison, some allow a short grace period of a month or two to use any unspent funds. But some plans have a "use it by December 31 or lose it" clause.

If you're unsure, ask your human resources department because any money remaining in your account at the end of the designated period is forfeited to your employer.



QUALIFICATIONS

FSA funds can be used for a variety of qualified medical expenses. This includes over-the-counter medication and first-aid supplies. Dental procedures and eye exams are also covered. But remember that you can't use FSA money for cosmetic procedures, health club fees, or prepayment for medical services you'll receive next year.

Q

The IRS fined me for making a late tax payment. Can I get them to waive the penalty?

A

The IRS may provide relief from a penalty that would otherwise be applicable under its First Time Penalty Abatement policy.

You may qualify for a reduction of your penalty for failing to pay taxes on time if the following are true:

- ❖ You didn't previously have to file a return, or you have no penalties for the three tax years before the tax year in which you received a penalty.
- ❖ You filed all required returns or requested an extension of time to file later.
- ❖ You have paid, or arranged to pay, any tax due.

A BEAR MARKET



A BULL MARKET



WHAT IS IT?

When a market index (like the S&P 500) falls 20% or more from its peak

HOW OFTEN?

On average, a bear market occurs every 56 months

HOW LONG?

On average, a bear market lasts 9.6 months

WHAT IS IT?

When the market has risen 20% or more above its near-term lows

HOW OFTEN?

Bull markets have occurred for 78% of the past 91 years

HOW LONG?

The average length of a bull market is 3.8 years with the longest being the 11-year run from 2009 to 2020

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