ClientLine®

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HIRING YOUR CHILD

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Looking to keep your kids occupied after school, on weekends, or during school breaks? Depending on their age and abilities, think about hiring them to work for your business. Both you and the child can benefit.

BENEFITS

Working can help your child develop a sense of responsibility, learn new skills, be productive, and see the reality of holding a job. It can also give them a step up on their peers when it comes time to enter the workforce full-time, whether for your business or elsewhere.

For you personally, you'll know where your child is and what they're doing and gain the satisfaction of seeing them grow in confidence and ability.

And because your child will have earned income, you can contribute to an IRA for them subject to the IRA contribution limits.

A TAX PERK FOR YOUR BUSINESS

Your business generally doesn't have to pay Social Security and Medicare taxes for your child's work if they're under age 18. Similarly, payments to your under-age-21 child aren't subject to Federal Unemployment Act (FUTA) tax.

In addition, as with any employee, your business can deduct the child's salary and potentially lower taxable business income. The child gets a tax break, too. They won't have to pay income tax if their income for the tax year is less than the standard deduction amount for that year ($14,600 in 2024).

GUIDELINES

Following these general guidelines may help avoid problems when hiring your child.

- The child must be doing legitimate business tasks
- The work should be appropriate for the child's age and abilities
- Pay your child reasonable compensation similar to what you'd pay another worker performing similar work
- The child's wages are subject to income tax withholding regardless of age

While children are generally allowed to work for a business owned by their parents, be aware of child labor laws prohibiting children under certain ages from working in certain jobs.

Talk with your tax professional before hiring your child. Rules may vary by business type.

CHECK BEFORE DONATING

Whatever your charitable passion, you can find an organization supporting it. But how do you determine whether an organization is legitimate?

RED FLAGS

Watch out for these scam signs:

- Requests for unneeded personal information such as your Social Security number
- Pressure to donate immediately
- You can't verify the organization's name, address, and website yourself

DO THE RESEARCH

Use the IRS Tax-Exempt Organization Search (TEOS) tool to find information about the charity's tax-exempt status and if the charity is eligible for tax deductible donations. The charity's Form 990s posted on the site shows how much of the organization's revenue is used for charitable work versus administrative expenses.

CLIENT PROFILE

Christopher is weighing buying an EV van for his electrical contracting business. It's a big outlay of money, so he's wondering if there's anything new he should know about the clean vehicle tax credit that might help him decide.

Actually, there are new rules Christopher should know about. Starting this year, motor vehicle dealers can apply the applicable clean vehicle tax credit directly to the price of a qualifying vehicle, which would give Christopher a sizable downpayment on the van he's looking at.

How sizable? A qualified commercial clean vehicle may qualify for a credit of up to $40,000. The credit equals the lesser of:

- ◊ 15% of the buyer's basis in the vehicle (30% if the vehicle isn't powered by gas or diesel)
- ◊ The incremental cost of the vehicle

The maximum credit is $7,500 for qualified vehicles with gross vehicle weight ratings (GVWRs) under 14,000 pounds and $40,000 for all other vehicles.

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

LEAVE EXCESS RETIREMENT SAVINGS FOR GRAND-CHILDREN WITHOUT A BIG TAX BILL

Naming grandchildren as beneficiaries of traditional IRAs used to be a popular estate-planning strategy. Grandchildren had their lifetimes to empty an inherited IRA, which also let them stretch out income-tax payments on the assets.

NO LONGER

Under 2020 required minimum distribution (RMD) changes, grandchildren must now generally withdraw inherited IRA assets within ten years. That means upping annual required minimum distributions (RMDs) and potential yearly taxes. The tax bill can be particularly onerous if the distributions fall during the grandchild's (or their parent's if they're minors) highest earning years. In addition, inherited IRAs have other complications. The beneficiary can't convert an inherited traditional IRA to a Roth IRA. Nor can they add money to an inherited IRA or combine it with their own IRA.

According to the Investment Company Institute, Americans held $12.5 trillion in IRAs in 2023, and 52% of households headed by someone 65 or older had one.

OTHER STRATEGIES

Suppose you named a grandchild as a beneficiary of your traditional IRA before 2020. Given the RMD changes requiring a shorter distribution period, you should review your planning and consider whether other transfer strategies might be more beneficial.

IRA Conversions Look at converting your traditional IRA to a Roth IRA. You can convert over several years to help minimize the annual tax bite. Yes, you'll essentially be prepaying the income tax. But once the money is in the Roth IRA, it'll grow tax-free, and the grandchild can take money from the Roth IRA tax-free once they inherit it. Several rules apply, so work with your tax professional.

Trusts Concerned about how a younger grandchild might use or squander the inherited IRA assets? Then you might consider leaving your IRA to a trust benefiting your grandchild.

A trust allows you to direct your chosen trustee to distribute the money to your grandchild according to the terms you set in the trust document. For instance, you might provide that larger sums of money can be withdrawn only to pay for college expenses or purchase a house.

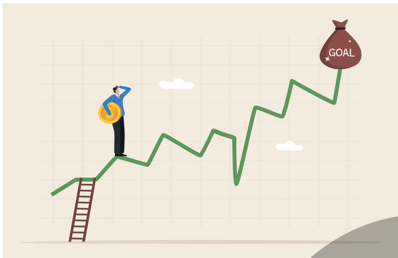
Trusts can be complicated and may not reduce taxes on the IRA benefits. Before changing your current IRA distribution strategy, consult an adviser well-versed in inherited IRAs.

REDUCE YOUR INVESTMENT STRESS

Investing can be a stimulating diversion from the demands of work or just added stress. If you're in the second camp, there's an investment approach that might appeal to you.

DOLLAR-COST AVERAGING

Dollar-cost (DCA) averaging emphasizes consistent investing regardless of market ups and downs. With DCA, you invest in a security over time in regular, equal amounts rather than a lump sum. That way, you don't have to worry about timing your investment to buy it at the lowest price. You'll be investing at both low and higher prices, which can potentially even out your purchase costs and provide more consistent investment returns over time.



NO GUARANTEE

Dollar-cost averaging doesn't guarantee a profit or protect against loss. At times, it can underperform lump-sum investing. And you need to consider whether you're comfortable weathering short-term market ups and downs.

But if implementing DCA and simply keeping yourself updated on your portfolio sounds attractive, this strategy may be the way for you to go for long-term investments. Your financial and tax professionals can provide guidance.

Q

As an employee-retention move, is there any tax-advantaged way I can help my employees with their student debt?

A

Consider implementing a qualified education assistance program to pay part of employees' student loans. Now, through 2025, you can pay up to $5,250 a year per employee to help them make student loan payments and receive a tax deduction for your payments. This amount is excluded from employees' income. Plus, under a new law in 2024, you can offer matching 401(k) contributions to employees based on their repayment of student loans. Participation is voluntary, and employees must opt-in.

WHEN YOU CAN'T OR SHOULDN'T CLAIM THE STANDARD DEDUCTION

The higher standard deduction has some people thinking they can handle their own personal income-tax preparation. They may want to think again. For instance, you can't use the standard deduction if you're:

- ◊ A married individual filing as married filing separately whose spouse itemizes deductions
- ◊ Filing a tax return for less than 12 months because of a change in your annual accounting period
- ◊ A nonresident alien or a dual-status alien during the year—unless you're married to a U.S. citizen or resident alien at the end of the year and choose to be treated as a U.S. resident for tax purposes
- ◊ Filing as an estate or trust, common trust fund, or partnership

Even with standard deductions of $27,700 for 2023 and $29,200 for 2024, you may want to itemize deductions if you:

- ◊ Had large uninsured medical and dental expenses
- ◊ Paid interest and taxes on your home
- ◊ Had large uninsured casualty or theft losses
- ◊ Made large contributions to qualified charities

Your tax advisor can help you determine what's best for you.

IRS DELAYS ONLINE SALES RULE

In an unexpected move, the IRS has postponed enforcement of a 2021 American Rescue Plan provision affecting self-employed people who earn money on third-party platforms like eBay, AirBnB, Etsy, VRBO or have payments processed by services like Venmo and PayPal. The provision would have required these platforms to report gross payments of $600 or more to you and the IRS in 2023.

Now, for 2023 tax filing, the previous reporting threshold of more than 200 transactions per year exceeding an aggregate amount of $20,000 remains in effect. The provision does not change what counts as income or how tax is calculated—just what the online platforms have to report to the IRS. You must still track and report your online sales and services income. Your tax professional can tell you more.

Form 1099-K reports payments in excess of the current threshold for personal items you sold or for goods you sell, services you provide, or property you rent through any:

- Peer-to-peer payment platform or digital wallet
- Craft or maker marketplace
- Auction site
- Car-sharing or ride-hailing platform
- Real estate marketplace
- Ticket exchange or resale site
- Crowdfunding platform
- Freelance marketplace
- Online marketplace