ClientLine®

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TAKE AN ACTIVE ROLE IN YOUR FINANCES

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Research on women and finance has revealed a few paradoxes. Although, on average, women earn better investment returns than men while taking less risk, men's 401(k) balances are generally 50% larger than women's. Younger women have narrowed that gap to about 23%.

MANY FACTORS

The reasons women are less likely than men to build wealth are varied. Perhaps the most relevant is that in 2022, women earned 82 cents for every dollar earned by men, according to the Pew Research Center, making it harder for women to save. According to several studies, women also need more confidence in their investing abilities and tend to be less financially literate than men.

But perhaps the most significant factor next to lower pay is that women spend more time out of the workforce due to caring for children and/or elderly parents. Even when women return to work, the time spent away from the job may result in lower pay, interruptions in a career path, fewer promotions, and a decrease in contributions to retirement savings.

TAKE CONTROL

Whether single or married, women need to be involved with their finances. Becoming a knowledgeable saver and investor should be a priority. Start by defining short- and long-term goals — things you'll need money for in a few months, a few years, and many years. Once your goals are defined, use them as a roadmap for making financial decisions.

PLAN FOR RETIREMENT

Contributing to an employer's 401(k) or other tax-qualified retirement plan allows you to accumulate retirement savings while reducing your current tax liability. If you're married and not working, your employed spouse can contribute to your spousal IRA.

GET HELP

Your financial professional can help you create a strategy for achieving all the goals you've identified. If you expect to be away from the workforce in the future, your advisor can help you plan for the absence by investing outside of your retirement plan. Choosing an accountant to help with tax issues and an attorney for estate planning will round out your team of professionals.

HOW TO TAKE TAX FRIENDLY RMDS

Before you retire, consider planning for your required minimum distributions (RMDs). This can be more complicated than you imagine if you have significant retirement assets in qualified plans, but with a little planning, you can achieve a tax-friendly result.

KNOW THE RULES

Retirees can wait until April 1 of the year after their 73rd birthday to begin taking withdrawals. In 2033, the age for taking RMDs will increase to 75. There is a penalty tax for missing a required withdrawal.

CONSIDER THESE MOVES

Converting some traditional IRA assets to a tax-free Roth IRA during lower-income years to limit the future income tax bite (you'll pay ordinary income tax upon conversion). You can also invest some IRA money in a Qualified Longevity Annuity Contract (QLAC), which can delay required payments for several more years.

CLIENT PROFILE

William's business is tourist-dependent and earns most of its money during the warmer months. He has always filed his tax return based on the calendar year but would like to change it to a fiscal year ending in October. What does he need to do?

First, William should make sure he is eligible. The IRS says if you file your first return using the calendar tax year and later become a sole proprietor, a partner in a partnership, or a shareholder in an S corporation, you must continue to use the calendar year unless you get IRS approval to change it or meet one of the exceptions listed in its Form 1128 instructions.

William may qualify for automatic IRS approval to change his tax year. A tax professional can help determine whether changing the tax year is the right course of action.

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

PAYING TAXES WHEN YOU'RE SELF-EMPLOYED

Whether you have just started a side hustle or have been freelancing for years, filing taxes can present challenges. Here are some points to keep in mind.

YOUR BUSINESS STRUCTURE

As a freelancer, you can set up your business as a sole proprietor or a Limited Liability Company (LLC). An LLC can be taxed as a sole proprietorship or as a corporation.

SELF-EMPLOYMENT TAXES

If you're new to freelancing, you might be surprised to learn that you're on the hook for both the employee and employer share of FICA taxes. FICA tax equals 15.3% of income—12.4% for Social Security and 2.9% for Medicare. If your income is greater than $200,000 ($250,000 married filing jointly/$125,000 filing separately), an additional Medicare tax of 0.9% applies.

QUARTERLY TAX PAYMENTS

Freelancers, small business owners, and independent contractors generally must make quarterly estimated tax payments to the IRS to avoid being subject to an underpayment penalty.

REPORTING THRESHOLD

Once the total exceeds $600, you will receive a 1099-K for any transaction settled through third-party payment networks (credit cards, debit cards, etc.). The amount doesn't have to come from a single transaction.

CUT TAXES WITH A RETIREMENT PLAN

Self-employed individuals can reduce the amount of taxes they owe by contributing to a qualified retirement plan. A SEP (Simplified Employee Pension Plan) has a high contribution limit—25% of net earnings, up to $69,000 for 2024.

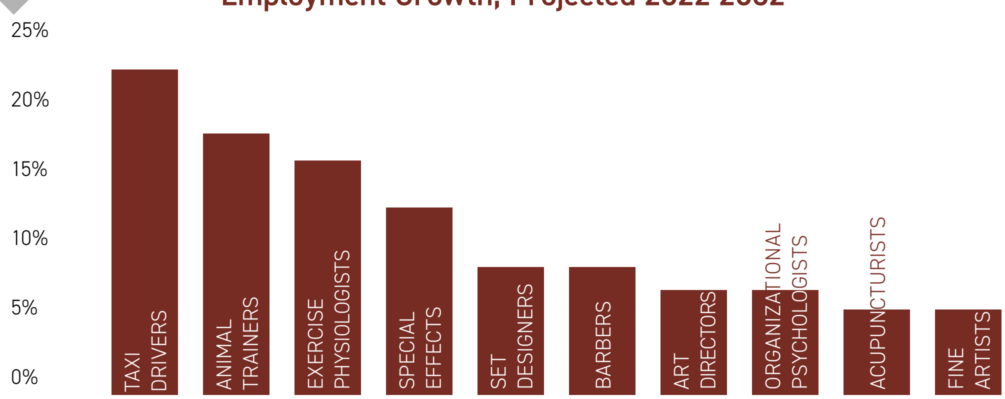
A SIMPLE (Savings Incentive Match Plan for Employees) IRA allows you to put all your net earnings from self-employment into the plan, up to a total of $16,000 or $19,500 if 50 or over.

OTHER POTENTIAL DEDUCTIONS

You may deduct what you spend on: continuing education, vehicle expenses, home office expenses, internet and phone service, travel to business meetings and conferences, and interest on business loans.

GROWING SELF-EMPLOYMENT JOBS

Employment Growth, Projected 2022-2032



Note: Projected employment growth is for all workers in an occupation, not only for those who are self-employed.
Source: U.S. Bureau of Labor of Statistics, Office of Occupational Statistics and Employment Projections

U.S CITIZENS GIVE GENEROUSLY

Americans gave an estimated $557.16 billion to U.S. charities in 2023, according to Giving USA 2023: The Annual Report on Philanthropy for the Year 2023 (from the Giving USA Foundation, the Giving Institute, and the Indiana University Lilly Family School of Philanthropy). The total includes charitable contributions from individuals, estates, foundations, and corporations.

HOW TO CHOOSE

If you want to give to an organization that makes the most of your charitable giving, learn how much of each dollar goes toward the charity and how much is spent elsewhere. You can find some organizations with websites that evaluate the legitimacy of charities and how they spend contributions.

Also, look for a charity's IRS Form 990 and ask to see its audited financial statement to ensure it meets your desired standards. Match your giving objectives with a charity's mission and demonstrated results. Look for charities that best match your values.

GET HELP

If you make significant charitable contributions, consider enlisting the aid of your advisor and an estate planning attorney. Although the federal estate tax exclusion is higher than in the past, some families may exceed it while also dealing with lower state estate and inheritance tax thresholds. Structured properly, charitable giving can benefit your charity and reduce estate taxes.

Q

I have a life insurance policy that names my son as beneficiary. Should I also include this policy in my will?

A

It wouldn't hurt anything, but no, you don't. That's because life insurance beneficiary designations take priority over terms of a will, even if they differ. The same holds true for the beneficiary designations of retirement plans and annuities. This is a good time to remind you that keeping all your beneficiary and contingent beneficiary designations current would be best. If you're interested in your beneficiaries getting the most from the benefit without triggering estate taxes, or you want to avoid the public glare of probate, you might consider putting the life insurance policy in a trust.

HOW TO ATTRACT OLDER WORKERS

Choosing a benefit package attractive to employees of every age is often challenging, especially when an employer has an older workforce. Numbering roughly 11 million today, the older workforce has nearly quadrupled in size since the mid-1980s.

OFFER FLEXIBILITY

As your workforce ages, consider how older workers value flexibility as much as health and retirement benefits.

Larger organizations increasingly allow older workers to transition into retirement by job-sharing, working remotely, and cutting their hours. Some pioneering snowbirds work seasonally with one employer or in temporary jobs, as income needs dictate, while they travel back and forth between their northern homes and the Sunbelt.

GAIN EXPERTISE

Other companies that know age often equals knowledge may attract older workers by offering paid healthcare, long-term care, and generous paid time off. As the workforce ages, consider taking the lead by hiring older workers. They equal experience and productivity.

BUDGET-SAVING HOLIDAY TRAVEL

Americans usually travel during the holidays and it can be expensive. Here's how to save money on the ground and in the air.

ROAD TRIP

Gasoline costs often rise during the holidays, so look for savings. Some wholesale buying clubs sell gasoline at discounts. You can also look for apps that alert you to the lowest gas prices wherever you travel.

If you expect to travel for hours, pack sandwiches, snacks, and games to keep the kids content. If you need lodging, use rewards cards if the establishment offers lower prices for members. Also, look for coupons for your favorite hotel when using rest stops on major highways and interstates.

BY AIR

Look to fly during off-peak hours, including on the holiday itself, for some of the lowest airline fares. Check the airline website's baggage guidelines to avoid unexpected fees at check-in, which is usually more expensive than booking ahead of time.

COMBO

Enlist family and friends to pick you up from the airport, if possible. If you have to rent a car at your destination, don't buy insurance if your auto insurer already provides rental coverage.