# ClientLine®

August 2024

# SOME THINGS GET BETTER WITH TIME

**Fine wine, balsamic vinegar, cheese, and certain tax breaks have something in common. They can get better with age. Case in point: consider this sample list.**

### RETIREMENT PLAN CONTRIBUTIONS

If you're 50 or older, catch-up contributions allow you to add an additional $1,000 to qualified retirement accounts, such as IRAs and 401(k)s. Contribution limits are based on modified adjusted gross income and begin to phase out at higher income levels.

### HIGHER HEALTH SAVINGS ACCOUNT (HSA) LIMITS

Similarly, qualified individuals aged 55 or older may increase deferrals to HSAs by up to $1,000 for an annual contribution of $5,150 (single) or $9,300 (family) versus $4,150 and $8,300 for younger taxpayers with qualified high-deductible medical plans.

### NO WITHDRAWAL PENALTIES

At age 59½, you're no longer subject to the usual 10% early withdrawal penalty on withdrawals from IRAs and 401(k) plans. At 65, you may withdraw HSA funds for non-medical expenses without paying an additional tax penalty. However, ordinary income tax rates apply to unqualified medical expenses.

### AN EXTRA STANDARD DEDUCTION

Once you turn 65, you become eligible for an additional standard deduction. The extra deduction reduces taxable income, potentially lowering your overall tax liability. The amount of this extra standard

deduction can vary based on filing status and whether you or your spouse are 65 or older. Another factor is whether you or your spouse is blind. Generally, for 2024, the deduction amounts are $1,950 if you're single or file as head of household and $1,550 each for married, filing jointly or separately. They double for taxpayers 65 and older and blind.

This list isn't all-encompassing. If you're unsure whether any tax provision, credit, or deduction applies to you, consult a trusted tax professional.

**Karen Petrucco**
Account Manager
**LTM Client Marketing**
45 Prospect Ave
Albany, NY 12206
Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780
kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

## HOW LENDERS SEE YOU

Lenders often determine an individual's creditworthiness by looking at that person's debt-to-income ratio. If the ratio is considered acceptable, it's more likely that lenders will make the loan. Calculating the ratio can provide insight into the state of your financial health. Here's how to calculate your ratio.

Start by adding up all of your monthly debt obligations—mortgage, auto, and other loan payments, as well as minimum credit card payments. Next, divide that amount by your gross monthly income. That's the amount of money you earn before taxes and other deductions are taken. Income generally includes your pay, investment income, and self-employment income.

If you multiply the ratio by 100, you'll get the ratio as a percentage. If your ratio seems high, it may be time for you to take some action to lower it. Paying down credit cards or other debt is a good starting point.

# CLIENT PROFILE

**Amy wants to buy a new car for her business but is unsure whether to do it before year-end or wait until 2025.**

According to Cox Automotive, August through September is a good time for business or personal car shopping. The new models are out; many dealers still have last-year models at substantially reduced prices. Car prices also generally drop at the end of any calendar quarter.

> **In 2023, the Tesla Model Y was the top-selling car model worldwide. The Toyota RAV4 ranked second.**

In addition to negotiating a potentially lower price on the vehicle Amy can realize potential tax advantages buying in 2024.

For example, under IRS Section 179, she could write off some or all of the vehicle's purchase price this year as long as she uses it for business more than 50% of the time (and certain other requirements are met), rather than having to claim depreciation of the vehicle price over five tax years.

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

# AVOID THE THIRD GENERATION "CURSE"

**Sadly, too often, wealth accumulated by one generation is lost by the third generation because of mismanagement and imprudent spending. Use core values in your estate strategy to help prevent this in your family.**

### GROUND YOUR ESTATE

First, recognize your core values and how they may differ from those of your beneficiaries. Help them understand that your goal isn't to impose your values on your beneficiaries but rather to protect family assets as far into the future as possible.

### START YOUNG

Educate your heirs throughout their lives. Begin with a basic financial education and bring them into the business as teens so they observe you and learn your business values.

### INSTILL VALUES IN YOUR DISCRETIONARY TRUST

Trusts are often created for tax-saving purposes, but other asset-protection purposes must be clear to your trustee, especially with discretionary trusts. Write a letter to inform your trustee of any distribution wishes you have that aren't dictated in the trust document. Such guidance is especially valuable to a successor trustee administering the trust years after it is funded.

For example, you might prefer the assets be used for higher education, a down payment on a home, or to start a business.

Or you might want beneficiaries to receive specific amounts or percentages of the trust assets at certain ages or milestones. Understand that the letter is a guide for the trustee, who won't be strictly bound to follow the wishes in your letter.

> **According to Cerulli Associates, a research firm, $54 trillion or more may be inherited by Gen X, Millennials, and Gen Z from their baby boomer parents through 2045. Ultra-high-net-worth households, the top 1.5% of households, will account for 42% of this Great Wealth Transfer.**

### COMMUNICATE YOUR WISHES

Use your letter to convey the details and purposes of your wishes. That way, the trustee will have the flexibility of your intentions to be able to explain why certain distribution requests may be denied.

# TRACKING RELATIVE RETURN

**A 3% return could be good enough in a bear market, and a 10% return might be mediocre in a bull market. How can you readily know how your investments are performing?**

### LOOK AT YOUR RELATIVE RETURN

Relative return is the return an asset or investment achieves over a period compared to a benchmark (e.g., an index). It's important for actively managed accounts because it measures investment performance. Actively managed investments should strive for a return greater than the market.

### COMPARE APPLES TO APPLES

Use the right benchmark for the investment. Here are some popular stock indices: the S&P 500, considered a good measure of the US stock market at large; the Dow Jones Industrial Average, for large-cap stocks; the NASDAQ, heavily weighted in the technology stock sector; and the Russell 2000, for small-cap stocks. There are countless more US and global stock indices at your disposal.

For bond investments, look at indices that follow markets specific to your bonds, such as corporate, government, treasuries, "junk" bonds, and international bonds.

Remember that benchmarks simply show how an investment measures up against past performance, and past performance doesn't guarantee future results.

## Q

**I have a hobby that I'm considering turning into a side business in hopes of making it full-time. What legal aspects do I need to consider?**

## A

Regulations vary from state to state and business to business. Be aware of the requirements of the Americans with Disabilities Act to accommodate customers and employees. Information resources to contact include your state and local government(s), the chamber of commerce, and your local Small Business Administration (SBA) office.

Consult your legal and tax professionals for advice specific to your enterprise and area. You also must decide what business form you want to use. Most new small businesses choose a sole proprietorship, partnership, or a limited liability corporation structure.

# RETIREMENT SAVINGS VERSUS COLLEGE SAVINGS

**For Millennials with young families, this can be a quandary. Try to save for both, but prioritize retirement savings. There are loans for college but not retirement.**

### SET PRIORITIES

While you value providing higher education for your children, step back and think hard before choosing to fund education over saving for retirement. Alternatively, start your children working toward winning scholarships in their freshman year of high school. Academics and sports are one way, but leadership in clubs and community service are also important.

### MAXIMIZE EMPLOYER 401(K) MATCHES

A 401(k) plan matching contribution may be the best return you will ever get on an investment. In addition to the match, you also get a tax break on your contributions and the earnings on those contributions. If your employer also offers a Roth 401(k) option, all contributions, including the match, will be made with after-tax money.

### CONSIDER A COLLEGE SAVINGS PLAN

Ask your professional advisor about a college savings plan only after you've maximized your retirement plan matching contributions. They can help you compare the benefits of saving more in your company plan, contributing to an individual retirement account or Roth IRA, or funding a separate college savings plan.

# COMMUNICATING WITH GEN Z EMPLOYEES

**They're the employees of the future. Born between 1999 and 2012, they're the first generation to have internet access their whole life. Not surprisingly, they're comfortable using technology to communicate. They want communication options that let them switch effortlessly between different platforms and channels. The quicker this communication can happen, the better. They also seek higher flexibility in the workplace, particularly regarding benefits, autonomy, and work-life balance offered by employers.**

### COMMUNICATION TIPS

Communicating with your Gen Z workers should be mobile-friendly, if not mobile-centric. This doesn't mean downplaying human interaction. While Gen Z fully embraces technology they still value human interaction and personal feedback that goes both ways.

Regular in-person meetings with your Gen Z workers let you provide the feedback they prize. One-to-one meetings also offer Gen Z the chance to be heard regarding their ideas or concerns, such as a workplace that represents their characteristics and a need for transparency. Gen Z feels they can trust you when you communicate authentically.

Know that in contrast to Millennials, who thrive on positive reinforcement, Gen Z is willing to embrace and learn from their failures. Providing candid feedback supports their professional development while demonstrating your commitment to honest communication.