ClientLine®

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MISCONCEPTIONS HOLDING YOUNG WOMEN BACK

Despite inroads working women have made in recent years, according to the American Association of University Women (AAUW), on average, they still earn 16% less than men—84 cents for every $1 a male counterpart earns. The gap is wider for working mothers. A report from the National Women's Law Center found year-round, full-time working mothers are typically paid 71 cents for every dollar paid to year-round working fathers. What's at work here? For many young women, it can be these financial misconceptions.

I'M TOO YOUNG TO SAVE FOR RETIREMENT

Retirement savings may be a low priority at the beginning of a career. But it's never too early to take advantage of the power of time and compound interest. Open an Individual Retirement Account or join your employer-sponsored retirement savings plan. If your employer matches contributions, contribute at least the match amount to maximize your savings.

I DON'T HAVE ENOUGH MONEY TO INVEST

No amount is too small to start a regular investment program. Creating a relationship with a financial professional now can help you find suitable investments based on your financial situation and give you a foothold in future success. Take this opportunity to financially plot a plan for life events such as unexpected emergencies, buying a home, or starting a family.

DEBT IS BAD

Paying credit card bills in full when due avoids interest and allows you to build credit. A good credit score can lead to better interest rates on mortgages, car loans, etc.

> **Statistics from AAUW show that gender-based financial barriers can set a 20-year-old woman starting full-time employment today back $462,000 in income over a 40-year career compared to a similarly situated man.**

Personal finance can be complex and present unique challenges, especially for women.

Talking with a financial professional can help you navigate these challenges.

SUCCESSION PLANNING

Don't fail to plan for what will happen to your business when you retire. Perhaps your partner wants to buy you out or you want to leave the business to heirs. If you're planning to sell your business to outside investors, you'll need to complete a valuation. Include any consultation fees if the new owner needs assistance through the transition.

Regardless of how you plan to transition your business to new owners, consider how you'll receive payment for your ownership. Will it be one lump sum payment or will you receive monthly payments?

Your succession plan is not just for retirement. It's also useful in the event you become ill, injured or worse. And remember that your succession plan isn't something you create and file away. Situations change that may require a tweak to your plan, so review it annually.

PROOF

CLIENT PROFILE

The Roberts family hired a live-in au pair to help care for their children while the parents work. One of their co-workers mentioned something about a "Nanny Tax," and the Roberts aren't sure if it applies to their situation.

In the IRS's eyes, nannies fall into the category of household employees. With a few exceptions, if your nanny is considered an employee because you control when and how they work, you'll need to withhold and pay Social Security and Medicare taxes if they earn at least $2,800 in 2025, ($2,700 in 2024). You may also need to pay federal unemployment tax if they earn more than $1,000 in a calendar quarter. This is on top of any state employment taxes you may be required to withhold or pay.

And while you're not required to withhold federal income tax, your employee may ask you to. You would need to get a Form W-4 from them. If you withhold any taxes from your employees, you'll need to provide a W-2 each January. Incorrectly classifying your nanny as an independent contractor to avoid paying payroll taxes can have harsh consequences.

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

DIVERSIFY YOUR INVESTMENTS

Mutual funds and exchange-traded funds (ETFs) are both baskets of individual securities that offer a variety of asset classes and niche markets that can help investors diversify their portfolios. There are differences between them, however, that could make one option preferable for a particular investor.

MUTUAL FUNDS

Mutual funds are either actively managed or pinned to an index. Earnings can be taxable and are paid as dividends, capital gains distributions, or increases in the share price. Mutual funds allow automatic investments and withdrawals. Share prices are calculated at the end of each trading day when all trades are executed. Not all funds have a sales fee but may charge other fees and expenses, which vary.

EXCHANGE-TRADED FUNDS

ETFs are traded on an exchange, like stocks, throughout the day, so investors can purchase as few as one individual share. Most ETFs follow an index, but some are actively managed. Passively managed ETFs may have lower expenses and can be tax efficient because trades are only made to match changes in their index. However, some trades can trigger the capital gains tax.

Index funds can be less volatile than those that follow a specific sector. ETFs can be relatively inexpensive, however, investing in them does include certain costs, which may include: operating expense ratio (OER), trading costs, commissions (if applicable), bid/ask spreads, and changes in discounts and premiums to an ETF's net asset value.

Your financial professional can review costs and help you decide whether mutual funds or ETFs will fit into your investment plan.

PROFESSIONAL FINANCIAL DESIGNATIONS

When choosing your financial team it is important to understand the differences between various professional designations.

CPA (CERTIFIED PUBLIC ACCOUNTANT)

This is one of the more widely recognized certifications. These professionals are tax and accounting specialists.

CFP (CERTIFIED FINANCIAL PLANNER)

These experts can help with your overall financial strategy, including insurance, investments and retirement planning.

IA (INVESTMENT ADVISERS)

IAs are able to give advice about specific investments. An investment adviser may also be a CFP.

PROOF

WHAT TO KNOW ABOUT 401(K)S

One of the common retirement plans offered by employers is a 401(k) plan. These plans make saving for retirement convenient. But make sure you understand the basics so you can capitalize on plan options and determine how your 401(k) fits into your overall retirement strategy.

ELIGIBILITY RULES

Some employers allow new hires to enroll in the company 401(k) plan on day one, and some even offer automatic enrollment. But employers can have waiting periods of a few months to a year before you're eligible to participate. To get the most from the plan, however, sign up as soon as you're allowed.

IT'S A MATCH

Many companies offer a matching contribution to employees who participate in the company plan. While amounts vary, matching contributions are usually a fixed percentage on a predetermined portion of an employee's annual salary. For example, an employer may contribute fifty cents for every dollar you contribute, up to 10% of your salary. So if you earn $60,000 per year, you could receive a $3,000 annual contribution from your employer, provided you contribute $6,000 each year.

KNOW YOUR LIMITS

The IRS places limits on the amount you can contribute to qualified retirement plans each year. For 2025, the limit is 23,500, but if you're 50-59 or 64 and older you can contribute catch-up contributions of an additional $7,500. New this year: Catch-up contributions for employees 60-63 are capped at $11,250. Any 401(k) plan can set its own contribution limits, which may be less than the IRS limits.

VESTING

The money you contribute to a 401(k) is yours to keep from day one. But the contributions from your employer may come with a contingency, also known as a vesting schedule. That means you may need to work for the company for a year or more before you gain 100% ownership of the company's contributions.

TAKE OUT

Although you may not plan on tapping your 401(k) account before retirement, sometimes life's events require you to do so. Some plans will let you take a loan that you repay with interest over time. Or you may be able to take a hardship withdrawal that doesn't require repayment. But you'll have to pay income tax on the amount withdrawn and if you are under age 59½ there is an additional 10% federal tax penalty.

Consider this option as your last resort, because that money will no longer be there to grow for retirement.

> **401(k) plans that offer automatic enrollment have experienced significantly increased participation rates—94% compared to 67%.**

BALANCE TRANSFERS AND YOUR CREDIT SCORE

Here are some tips for consolidating credit card debt that will potentially boost your score.

◊ Calculate the monthly payment you'll need to make to pay off the balance before the introductory rate ends.

◊ Don't cancel your old cards. In addition to eliminating your credit history, closing accounts reduces your available credit. Both can have a negative impact on your credit score.

◊ Avoid charging purchases to your old cards unless you can pay off the balance each month. People often fail at debt consolidation because they run up new debt.

Q

I will claim an automobile deduction on my tax return and have used the standard mileage rate in previous years. However, in 2024 I incurred significant car expenses that will outweigh the standard mileage deduction. Can I switch to deducting actual costs for 2024?

A

Yes, you'll be able to switch to the actual expenses method if you own your car and you used the standard mileage rate in the first year that you used your vehicle for business. The rules are different though if you lease your car. If you're leasing your car, you'll need to take the standard rate for the entire lease term.

PROOF

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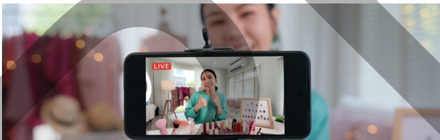
IS YOUR HOBBY A BUSINESS OR IS YOUR BUSINESS A HOBBY?

Everyone has hobbies and sometimes those hobbies provide some income. But when does your hobby become a business? Getting the right classification determines how this income is taxed.



PROFIT BASED

Generally, if you engage in your hobby with the intent to generate profit, put in a lot of effort and money and rely on the income for your livelihood it's a business. But if your hobby is strictly for personal entertainment, it's not a business.

IT'S YOUR HOBBY

You must report all your hobby income on your tax return. However, following the Tax Cuts and Jobs Act, hobby expenses were eliminated and are no longer deductible on Schedule A as a miscellaneous itemized deduction.

IT'S YOUR BUSINESS

However, unlike your hobby, if you're operating a business, you can deduct all your business expenses even if it creates a taxable loss. And the upside is that if you generate a loss, it can usually be used to offset other income from things like wages or investment income.

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