Simmons Wealth Advisory

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Social Security for the Self-Employed

If you thought that running a successful business on your own was hard enough already, think again. As a self-employed individual, defined by the IRS as someone who operates a trade, business or profession, (either by yourself or as a partner), you are required to pay self-employment tax as well as income tax. Self-employment tax consists of Social Security and Medicare taxes, similar to those withheld from the pay of most wage earners. Failure to comply with IRS regulations may result in your business operations being jeopardized. The following are a few key facts to keep in mind:

1. The Social Security tax rate for 2013 is 15.3% on self-employment income up to $113,700. Should your net earnings exceed $113,700, you continue to pay only the Medicare portion of the Social Security tax, which is 2.9%. Starting this year, the Medicare tax rate for net earnings in excess of $200,000 ($250,000 for joint filers) is increased to 3.8%.

2. You need to have worked and paid Social Security taxes for a certain length of time to get Social Security benefits (no more than 10 years of work, which is equivalent to 40 credits). In 2013, if your net earnings are $4,640 or more, you earn the yearly maximum of four credits. If your net earnings are less than $4,640, you could still earn credit (depending on how you report your earnings).

3. Certain income does not count for Social Security and should not be included in figuring your net earnings. These include dividends from shares of stocks and interest on bonds, interest from loans, rentals from real estate, and income received from limited partnerships.

Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns.

Advisor Corner

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A veteran in the industry, albeit a young one, Mark has developed a distinguished reputation for his approach to financial planning and portfolio management, which have become the foundation of the firm's core philosophy. He has received wide publicity for his investment insight and has been featured in numerous business publications.

A native of Baton Rouge, Mark received a B.S. in Business and Finance from Centenary College of Louisiana. Prior to founding Simmons Asset Management, he maintained positions such as Vice President, Portfolio Manager and Chief Compliance Officer as well as acquiring the Series 7, 24 and 66 licenses.

Mark made the decision to transform a lifelong career into helping people maximize their financial condition by reducing costly mistakes. He formulated Simmons Asset Management, a wealth management firm, whose main goals are to look out for the best interest of investors, while educating them at the same time.

Get Your Estate Plan in Gear

Estate planning laws have undergone swift changes over the past several years and may change again in the years ahead. If you're creating or updating an estate plan, it's essential that you seek the advice of an attorney who's well versed in this area. Before you hire an estate-planning attorney to draft or update your estate plan, it's important to understand your role in the estate-planning process.

Find a qualified attorney: Because your estate plan will likely need to be updated as the years go by and your personal circumstances change, it makes sense to find an attorney who practices in the community where you live. This can help you meet with him/her on an ongoing basis.

Take stock of your assets: Before you meet with your attorney, spend some time enumerating your assets and their value: your investment accounts, life insurance, personal assets such as your home, and your share of any businesses that you own. Also gather current information about any debts outstanding. Your estate-planning attorney is likely to provide you with a worksheet to document your assets and liabilities, but it's helpful to collect this information in advance.

Identify key individuals: Another important aspect of estate planning is identifying the individuals you trust to ensure that your wishes are carried out once you're gone.

Executor: A person who gathers all of your assets and makes sure that they are distributed as spelled out in your will.

Durable (Financial) Power of Attorney: A person you entrust with making financial decisions on your behalf if you should become disabled and unable to manage your own financial affairs.

Power of Attorney for Health Care: A person you entrust with making health-care decisions on your behalf if you are disabled and unable to make them on your own.

Guardian: A person who would look after your children if you and your spouse were to die when your children are minors.

Know the key documents you need: When you meet with your estate-planning attorney, he or she will make recommendations about your estate plan. At a minimum, you should ask your attorney to draft the following documents.

Last Will and Testament: A legal document that tells everyone, including your heirs, how you would like your assets distributed after you're gone.

Living Will: A document that tells your loved ones and your health-care providers how you would like to be cared for if you should become terminally ill; usually includes details about your views toward life-support equipment.

Durable (Financial) Power of Attorney: A document that gives an individual the power to make financial decisions and execute financial transactions on your behalf if you are unable to do so.

Medical Power of Attorney: A document that gives an individual the power to make health-care decisions on your behalf if you are unable to do so.

Manage your documents: Once your estate-planning documents are drafted, destroy any older versions of them. Notify your executor of the whereabouts of your estate-planning documents, and provide copies of the relevant documents to your executor, powers of attorney, and the guardian for your children.

Plan to keep your plan current: Last but not least, plan to keep your estate plan current. One of the biggest estate-planning pitfalls is drafting an estate plan but not keeping it up to date. Changes may include change in marital status, assets, financial status, death or ill health of your beneficiaries, executor, power of attorneys, or guardian.

The Best Ways to Give a Financial Gift to Children

Here are some of the key strategies to consider when giving children and grandchildren a financial boost. There's no one-size-fits-all answer: The right choice for your situation will depend on how much you intend to give as well as on your grandchild's life stage and the goal of financial assistance.

Set up a UGMA/UTMA account: UGMA/UTMA accounts provide a way to save on behalf of a minor child without setting up trust funds or hiring attorneys. As a donor, you appoint yourself or other adults (such as the child's parents) to look after the account. One of the key advantages with UGMA/UTMA accounts is flexibility: You can put a huge range of investment options inside a UGMA/UTMA, including stocks and mutual funds. If you're saving fairly small sums, these accounts can be a decent way to go, but there are two major hitches. The first is that the assets become the child's property when he or she reaches the age of the majority (18 or 21, depending on state of residence). This leaves the donor with no real control over how the money is spent. The second is that for college-bound children, substantial UGMA/UTMA assets can tend to work against them in financial-aid calculations.

Contribute to a 529 Plan: These plans may build college savings while possibly obtaining a tax break. If you're saving for a college-bound child or grandchild, section 529 college-savings plans may help you avoid the two key pitfalls of UGMA/UTMA accounts. First, the assets are the property of the account owner, not the child. So if one grandchild doesn't end up going to college, you can use the 529 assets for another grandchild. Second, because 529 plan assets are considered the property of the account owner, they can have a relatively limited impact on financial-aid eligibility. In addition, you won't owe taxes on 529 plan investment earnings from year to year, and withdrawals from a 529 plan account will be tax-free provided you use them to pay for qualified higher-education expenses, such as tuition and room and board. Finally, you may be eligible for a state tax break on your contribution to a 529 Plan. The availability of such tax or other benefits may be conditioned on meeting certain requirements.

Fund a Roth IRA: If your grandchild is older and working, you can contribute an amount equal to his or her earned income, up to $5,000, to a Roth IRA. As with a UGMA/UTMA account, you can put a range of investments inside a Roth; there are no investment minimums or age limits on contributions. The money inside the Roth can grow tax-free until retirement, and the vehicle also offers some flexibility for withdrawals before that time. Specifically, contributions to a Roth IRA can be withdrawn at any time and for any reason, to pay for college or anything else. Those who need to tap the investment-earnings piece of an IRA will owe income tax on that portion of the withdrawal, but they'll circumvent the 10% penalty on early withdrawals if they use the money for qualified college or certain other expenses. Despite the big tax benefits, Roth IRAs for children carry one of the key drawbacks that also accompany UGMA/UTMA accounts: The child maintains control over the assets and can use the money for whatever he or she wants at the age of majority.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. 529 plans are tax-deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax.

The Tax Impact of a 529 Rollover

Thirty-four states offer some sort of tax deduction or tax credit for contributions made to a 529 plan. But in 29 of those 34 states, the tax break is available only for contributions made to an in-state plan. Only Arizona, Kansas, Maine, Missouri, and Pennsylvania give residents a tax break for contributing to any state's plan. If you own an out-of-state 529 plan, you may be missing out on this tax break advantage, and it may be worthwhile to do some research and consider rolling your out-of-state plan to an in-state one.

The tax break can be a real plus, but the quality of the 529 plan (its investment options and fees, in particular) is important, too. If you've already opened an out-of-state 529 plan a while ago, you may want to revisit that decision because 529 plans can change over time. If your state now offers a better plan, check with the plan or a tax professional to see if there are tax advantages to rolling funds over. Many states do not provide a tax break for inbound 529 rollovers, but some do. States that do may limit deductions to just the contribution portion of the out-of-state 529 or let you deduct the entire amount including earnings.

529 plans are tax-deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax. An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. More information about municipal fund securities is available in the issuer's official statement, and the official statement should be read carefully before investing. Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a legal, tax, or financial professional with any questions or concerns.

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