MANAGE YOUR MONEY & LIFE

Five Things Every Newly Self-Employed Woman Should Know

Women become self-employed in many ways. For example, they may decide to leave full-time work and become consultants or freelancers. In each case, women join the millions of Americans who become "sole proprietors" and report self-employment income. Self-employment is partly a state of mind (being free to do what you want) and partly a business structure. In this article, we'll cover five ideas that can help in your first few months of self-employment.

1. Know What Self-Employment Means

According to the IRS: "You are self-employed if you carry on a trade or business as a sole proprietor or an independent contractor. A sole proprietor is someone who owns an unincorporated business by himself or herself." A sole proprietorship can choose the identity of its owner and use the Social Security number of its owner as its Tax Number. Alternatively, the business can choose a separate DBA ("doing business as") identity and request a separate Employer Identification Number from the IRS. In either case, the IRS considers the finances of the company to be the same as those of the proprietor.

2. Separate Business from Self

Just because the IRS treats the finances of the owner and the proprietorship as one-and-the-same doesn't mean you can't create separation between personal and business money. Start by setting up a separate bank account used only for business matters. This will help you track business expenses and avoid dipping into personal funds to finance your business.

Also, think through the potential liabilities of the business, which are 100% the personal responsibilities of the proprietor. Consider obtaining adequate insurance coverage to protect yourself, including life and disability income insurance to protect your dependents against the loss of your own income.

3. Know the Rules for Hiring Employees

The majority of proprietorships technically have no employees, because the proprietor is not considered to be employed. However, there are no restrictions on your ability to hire the employees your business needs to succeed.

If any employees are hired, the business may be liable for federal and state wage withholding, worker's compensation and unemployment insurance coverage. W-2 annual wage forms should be prepared and delivered to each employee. If the business sets up a retirement plan for the owner such as a SEP or SIMPLE, any eligible employees also must be covered.

4. Set Up Your Books and Records

Because there is no withholding on the profits of self-employed proprietors, it's a good idea to make quarterly estimated tax payments to federal and state governments. These payments are the equivalent to payroll tax withholding for salaried people. As an alternative, you may be able to avoid paying estimated taxes by increasing your withholding at a full-time job. Because penalties and interest for failing to make timely estimated tax payments can be costly, try to form a quarterly filing discipline. You can download Form 505, *Tax Withholding and Estimated Tax Payments*, from www.irs.gov

5. Choose Your Professionals

Self-employed people rely upon a variety of professionals. Depending on the size and growth of your business, it may not be necessary to employ professionals right away. But you can make the effort to network with professionals in your community and learn more about how they work.

Whether your business is big or small, full-time or part-time, you can start to implement these ideas now, and they can pay dividends quickly. Then, you will be in better position to aim your business toward the next level of growth and begin reaping personal rewards from business success. ✦

HIGHLIGHTS

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Does “Buy Term and Invest the Difference” (BTID) Make Sense?

If an important goal is it so set money aside for retirement, whole life insurance may be worth evaluating.

To obtain adequate life insurance coverage, many individuals believe in the advantages of “buy term insurance and invest the difference” (BTID). Term life insurance generally offers the greatest amount of death benefit protection for an affordable premium. This is especially true for women under the age of 45, who tend to be in the family raising phase and need affordable coverage to protect their contributions to household income.

The idea behind BTID is to buy life insurance with little cash outlay as possible and then “invest the difference” in strategies with growth potential, such as retirement plans or mutual funds. But is this smart? In this article, we will examine the strengths and weaknesses of BTID.

When BTID May Make Sense

BTID strategies might make sense for you if:

✦ There is a specific period of time (30 years or less) for which you need life insurance, with a near certainty that you will not require protection beyond this period.

✦ You are age 45 or younger and have enough time to pursue growth potential by “investing the difference.”

✦ You are willing and able to exercise the necessary discipline and expertise to invest the difference and manage your own risk.

✦ The cost saving has a major impact on your budget. Term insurance fulfills an important role in providing a desired death benefit at low initial cost. If you lack the financial resources to procure permanent protection, then term insurance can be appropriate – even if you decide not to “invest the difference.”

Why Not BTID?

One argument that's often made in favor of BTID is that times have changed, and BTID represents a newer, better investment alternative. Yet, it's precisely because times have changed that a financial strategy based on term life may not be most appropriate.

The 21st century marks a shift in the paradigm of how long a life span may last. People are not only living beyond life expectancy in ever-greater numbers – they also are working beyond traditional retirement ages. They are having children later, changing careers more often, and starting businesses or second families later in life. Their parents, too, are living longer and may depend on them for care and support.

In other words, your financial obligations may be more wide-ranging than in your parents' or grandparents' day, and they also may last longer. The right choice of insurance can play a crucial role in helping you meet those obligations before and during retirement. For all these reasons, given the length of time you may need life insurance, it is increasingly unlikely that a BTID strategy will adequately meet your needs.

Take a Look at Whole Life

Here are three good reasons why whole life insurance may be a better choice for you than BTID.

1. Lifetime Costs – In annual renewable term insurance, premiums increase rapidly as you grow older and can reach an unaffordable level later in life. In level-premium term, premiums are guaranteed to stay constant over a fixed number of years (such as 10 or 20). But at the end of this period, costs may be so high that coverage must be dropped. With more people living into their 80s and 90s, lifetime insurance coverage may not be practical or affordable with term insurance.

2. Legacy Value – In a level-premium term life insurance program, you will build little or no value at the end of the guarantee period. If you “invest the difference” outside life insurance, you may be subject to market volatility during a difficult investment period. In many cases, life insurance professionals can illustrate programs in which the legacy values available in whole life insurance will exceed those that most people are capable of achieving by investing the difference on their own.

3. Retirement Income – If one of your most important goals is to set money aside for retirement, whole life insurance may be worth evaluating. You can access the cash value for retirement income through low-cost policy loans or tax-advantaged withdrawals (up to your cost basis in the contract). Ask your Guardian representative for an illustration of a whole life program customized to your current budget and retirement income needs.

If you are in the process of evaluating between BTID and whole life, this is a good time to speak with your Guardian representative and determine the best life insurance strategy for your individual needs. By making the best choice for your personal circumstances, you will increase confidence that you and your beneficiaries will be protected both now and in the future.✦

MONEY & LIFE

When Should a Child File an Income Tax Return?

Filing income taxes can be a way to teach children how the U.S. tax system works.

Many parents want their children to be enterprising and earn money by baby-sitting, mowing lawns, or shoveling snow. Teenagers often are able to participate in part-time jobs that involve real paychecks and W-2 wage reporting statements.

However, few children have the financial acumen to know when they should (or must) file an income tax return. Therefore, it's the parent's role to either: 1) evaluate a complex set of rules regarding tax filing, or 2) obtain guidance from a tax professional. This article will serve as your quick guide to basic information that can help.

Let's begin by describing three basic reasons why children should file federal income tax returns:

1) Because it is required by law, due to the specific amounts of earned, unearned, or self-employment income.

2) Because it is profitable, as a way to receive refunds of wages withheld by employers.

3) Because it is educational in helping children establish good habits that will continue into adulthood.

When Filing Is Required

Qualifying children can be claimed as dependents provided that they are: 1) under age 19 at the end of the year; or 2) under age 24 at the end of the year and a full-time student; or 3) of any age and permanently disabled. To claim an exemption for a dependent child, the taxpayer must provide at least 50% of the child's support and the child must live with the adult at least half of the year. Parents, step-parents, foster parents, siblings and grandparents may claim children as dependents.

For a qualifying dependent child, there are four basic tests, any one of which requires an income tax return to be filed for a given year:

1) The child has unearned income (from investment interest, gains, etc.) above $900.

2) The child has earned income above $5,450.

3) Gross income (earned plus unearned) exceeds a specified amount published by the IRS.

4) Net earnings from self-employment are $400 or more. (This part of the rule is not specific to dependents but applies to all taxpayers.)

In each case, amounts shown are for 2008. For details, see IRS Publication 929: Tax Rules for Children and Dependents. These rules can vary if the dependent child is blind and/or married.

Example: Mary, age 16, earned $200 in interest income from a bank account in her name (unearned), $1,000 by working part-time in a bakery (earned), and $300 by baby-sitting (self-employment). She does not have to file. However, if her unearned income increased above $300 or her self-employment income exceeded $400, she would have to file.

When Filing Is Profitable

When children take jobs that pay taxable wages, some employers will automatically withhold amounts to pay income taxes. In the example above, Mary earned $1,000 working part-time in a bakery. By filing a Form W-4, children who do not expect to owe any income tax can request that employers not withhold income taxes. However, if the employer has already withheld money, the child must file a return to get it back from the IRS. The simplest way to file is to use the one-page IRS Form 1040-EZ. The child must sign the form, attach a copy of any Form W-2 provided by the employer, and the IRS then will process the refund.

When Filing Is Smart

Filing income taxes can be a sound way to teach children how the U.S. tax system works while helping them create sound habits.

In the example above, Mary earned money from baby-sitting, a form of self-employment. While this type of work usually involves cash payments, and Mary is not required to file a tax return because she is not above the thresholds and her net profit from self-employment is not $400 or more, it might be a good idea for her to report the income, for two reasons:

✦ Earning Social Security work credits – Children can begin earnings work credits toward future Social Security and Medicare benefits when they earn a sufficient amount of money, file the appropriate tax return(s), and pay FICA or self-employment tax.

✦ Start an IRA – By declaring her income from babysitting, Mary becomes eligible to start her own IRA and deposit up to 100% of her net income from self-employment into it. (She may use Form 1040-EZ and attach a Schedule C-EZ to report business profits.)

It is not the purpose of this article to offer detailed tax advice, and parents or grandparents should consult a qualified tax professional for specific guidance. Keep in mind the lifelong lesson involved in teaching children the importance of paying attention to taxes and taking IRS obligations seriously. ✦

How to Save Without Thinking about It

Every dollar of new debt principal you can avoid or pay down is an extra dollar saved.

From the 1960s through the early 1990s, Americans saved on average about 5-10% of their incomes. Since 2005, however, Americans have saved less than 1% of their incomes on average, according to the U.S. Department of Commerce.

Many people question how savings can be so sluggish as assets have continued to build in banks, mutual funds, life insurance policies, and retirement plans. The answer is the real culprit behind the U.S. savings crisis – soaring personal debt.

According to the Bureau of Economic Analysis, savings is defined as money that households set aside for the future net of new debt incurred, and in recent years personal debt levels have soared. Total Household Credit Market Debt Outstanding – a measure of consumer credit plus home mortgage balances – increased from about $5.6 trillion a decade ago to $14 trillion today, according to the Federal Reserve. This data shows that most of the "wealth" produced in the U.S. over the last decade actually has been borrowed.

Six Keys to Automatic Savings Progress

Savings are the key to increasing your personal net worth and achieving important long-term goals such as a secure retirement or college educations for children. Now is the time to set a goal for yourself of saving at least 5-10% of your income (after adjusting for debts) every year. Here are six proven ways to hit this goal with minimal pressure, because all of these ways involve automatic savings disciplines.

1. **Take advantage of employer-sponsored retirement plans, especially if they offer matching.** Retirement plans at work offer a great combination of benefits for long-term savings. A 401(k) automatically transfers a portion of each paycheck to a retirement account in your name. Also, many employers match a portion of your money. Finally, you are saving pre-tax money, and earnings accumulate tax-deferred until withdrawal.

2. **Accelerate home mortgage payments.** If you can afford to add an extra $30-40 per month to your mortgage payment, it's like putting money in the bank with interest. Such payments go toward reducing the principal balance owed, and you will recoup these savings when you sell your house. The higher the interest rate you are paying on your mortgage, the more savings progress you may be able to make. Since the interest portion of home mortgage payments may be tax-deductible, consult a tax professional before starting this strategy.

3. **Use the disciplined savings features of whole life insurance.** With each premium you pay into life insurance, you can build cash value. In addition, you can create a program that is self-completing if you do not live long enough to accumulate assets for future goals. When whole life insurance is issued by a mutual company, such as Guardian, any dividends can add to your automatic savings progress. (Dividends are not guaranteed, and may be declared annually by the board of directors.)

4. **Dollar cost average into mutual funds or variable annuities.** In a dollar cost averaging savings program, a fixed amount of money can be automatically transferred from a bank account into an investment account at periodic intervals. As markets fluctuate, this fixed amount will purchase more shares when prices are lower than when they are higher, thus reducing the average share price over time. However, dollar cost averaging does not guarantee against investment losses.

5. **Make monthly or quarterly contributions to IRAs or 529 Plans.** Do you wait until the end of each year to fund an IRA or 529 college savings plan? You can conveniently make savings progress in these accounts by automatically transferring sums from money market or bank accounts periodically. It's a painless way to save for long-term goals.

6. **Eliminate your highest-cost credit card.** If you use several credit cards and don't pay off their full principal balance every month, make a plan to eliminate debt on the one that charges the highest interest. The fewer cards you carry, the better you will be able to control and track credit card balance accumulation. Remember, every dollar of new debt principal you can avoid or pay down is an extra dollar saved.

Achieving a goal of saving at least 5-10% of your income doesn't have to be hard work. All of these techniques create disciplined savings through good habits that are simple and easy.

These ideas also will make it easier to increase your savings goal gradually as your income increases. Good luck achieving your long-term financial goals through systematic savings!✦