Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

July 2018

Tax Filing Reminder

July 31 –
- Quarterly federal excise tax returns (Form 720) due
- Employer quarterly federal tax returns (Form 941) due
- Calendar-year employee retirement and benefit plan returns (5500 series) due

Five tax breaks for new parents

New parents have their work cut out for them. Not only are they dealing with lost sleep, they also face the extra cost of raising a child. At least there are a lot of potential tax breaks available to them. Check out this list and share it with any new parents you know.

1. **Child Tax Credit**
   Tax law changes this year not only double the size of the Child Tax Credit, they make it available to more parents than ever before. The credit increases to $2,000 from $1,000 (with $1,400 of it being refundable even if no tax is owed). Meanwhile, the eligibility phaseout threshold increases sharply to $400,000 from $110,000 for married joint filers (and to $200,000 for single taxpayers).

2. **Child and Dependent Care Credit**
   If you pay a nanny, babysitter, daycare or a relative to take care of your child while you and your spouse are at work, you can claim the Child and Dependent Care Credit. It's up to $1,050 on $3,000 in expenses for one child and twice that for two or more children. The key is that you and your spouse (if you are married) must both be working, and you can't claim expenses for overnight care.

3. **Below the kiddie tax threshold**
   If you have property that produces income, such as bonds, stocks, mutual funds, interest or realized capital gains, you can lower your tax by transferring a certain amount of that income to your children. Why? Your child has a lower tax rate than you do on unearned income. This works up to a certain dollar limit before "kiddie tax" rules come into play.

4. **Adoption Credit**
   About 135,000 children are adopted in the U.S. each year. If you are welcoming

an adopted child into your family, the Adoption Credit can be claimed on up to $13,840 in expenses, such as fees, legal counsel and court costs.

5. **Educational benefits of a 529 plan**
   There are many provisions in the tax code to help cover the high cost of education. Consider establishing 529 college savings programs for your new addition. While contributions are made with after-tax dollars, any investment gains are tax-free as long as they're used to pay qualified education expenses. The tax reform passed last year now also allows you to use these funds to pay private elementary and secondary school tuition as well as college.

Become debt-free

The average household carries $137,063 in debt, while the median household income is less than $60,000, according to data from the Federal Reserve and U.S. Labor Department. While it's easy to get into debt, it can be hard to get out. Here are five tips personal finance experts recommend to lower your debt burden:

1. **List and prioritize**
   Create a list all of your debts by amount owed and the interest rate you are paying. Then prioritize your repayment based on one of two strategies:

   - **The Avalanche**. Focus on paying the debt with the highest interest rate first, to minimize the total interest you'll pay.

   - **The Snowball**. Focus on paying the debt with the smallest balance first. While this may seem counterintuitive, it's recommended for those who have difficulty sticking to a repayment plan. The smallest balance gets paid off sooner and then its debt repayments can be devoted to the next debt. This gives you a powerful psychological boost and sense of achievement.

2. **Pay more**
   Pay more than the minimum amount due. Your lender receives more interest income from you if you pay the minimum, but that's not what you want. Think of ways you can increase your income to make the extra payments, such as:

   - Taking a second job or freelancing.
   - Asking for a raise at work.
   - Devoting extra cash to debt repayment, such as your refund check.

3. **Spend less**
   Review your monthly expenses to find things that you can eliminate to increase your debt repayment. You can reward yourself by renewing these luxuries, but only after you've paid off what you owe. You could cut spending on things like:

   - Cable TV

- Gym fees
- Restaurants
- Entertainment

4. **Downsize and declutter**
   Not only does it help to spend less, it may also be worth getting rid of what you already have. Consider selling possessions you no longer need, or finding a place to live with lower rent or smaller mortgage payments. Be ready to make some sacrifices in exchange for financial freedom. Things that you may be able to part with include:

   - Sporting equipment
   - Extra or recreational vehicles
   - Electronics, games
   - Collectibles

5. **Negotiate**
   It's worth calling your lenders to see if there's a way to lower your interest rate. They will often do this if you've been a longtime customer with a history of timely payments. In some cases, you can even get them to forgive part of your debt. Also consider using zero-percent balance transfer options with different credit card providers. While these may come with fees, 12 months of no interest can be worth it.

Remember, reducing your debt burden can seem overwhelming, but small steps can yield big results.

Elements of a good business partnership

Like a bundle of sticks, good business partners support each other and are less likely to crack under strain together than on their own. In fact, companies with multiple owners have a stronger chance of surviving their first five years than sole proprietorships, according to U.S. Small Business Administration data.

Yet sole proprietorships are more common than partnerships, making up more than 70 percent of all businesses. That's because while good partnerships are strong, they can be hard to make. Here are some elements that good business partnerships require:

1. **A shared vision**
   Business partnerships need a shared vision. If there are differences in vision, make an honest effort to find compromise. If you want to start a restaurant and your partner envisions a fine dining experience with French cuisine, while you want an American bistro, you are going to be disagreeing over everything from pricing and marketing to hiring and décor.

2. **Compatible strengths**
   Different people bring different skills and personalities to a business. There is no stronger glue to hold a business partnership together than when partners need and rely on each other's abilities. Suppose one person is great at accounting and inventory management, and another is a natural at sales and marketing. Each is free to focus on what they are good at and can appreciate that their partner will pick up the slack in the areas where they are weak.

3. **Defined roles and limitations**
   Before going into business, outline who will have what responsibilities. Agree which things need consensus and which do not. Having this understanding upfront will help resolve future disagreements. Outlining the limits of each person's role not only avoids conflict, it also identifies where you need to hire outside expertise to fulfill a skill gap in your partnership.

4. **A conflict resolution strategy**
   Conflict is bound to arise even if the fundamentals of your partnership are strong. Set up a routine for resolving conflicts. Start with a schedule for frequent communication between partners. Allow each person to discuss issues without judgment. If compromise is still difficult after discussion, it helps to have someone who can be a neutral arbiter, such as a trusted employee or consultant.

5. **A goal-setting system**
   Create a system to set individual goals as well as business goals. Regularly meet together and set your goals, the steps needed to achieve them, who needs to take the next action, and the expected date of completion.

6. **An exit strategy**
   It's often easier to get into business with a partner than to exit when it isn't working out. Create a buy-sell agreement at the start of your business relationship. This should outline how you exit the business and create a fair valuation system to pay the exiting owner. Neither the selling partner nor the buying partner want to feel taken advantage of during an ownership transition.