Financial focus

Alliance of Comprehensive Planners

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In This Issue

More Than Your Fair Share

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"Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

Gregory v. Helvering, 293 U.S, 465 (1935), a landmark decision by the United States Supreme Court, set rigid standards and also acknowledged that the tax law allows various deductions, credits, and allowances for use by a taxpayer. This form of "tax avoidance" is legal and supportive of the Congressional intent to encourage particular economic behaviors by the taxpayer, for example, owning a home. However, these "incentives" are difficult to find within the U.S. Tax Code, which is not your cozy, fireside reading material.

The difficulty of interpreting and applying the U.S. Tax Code drives many taxpayers to seek assistance preparing and filing their tax returns. The best tax preparers will ask you to complete a questionnaire and then utilize tax forms, statements, receipts, and miscellaneous documents to enter data into their tax software. After a rigorous review process, the final tax return is ready for signature and filing. Mission accomplished, and although you are one of the 99.9% of U.S. taxpayers who believe they pay too much in tax, you are ready to move on.

It is possible that the real reason you might have paid too much tax is that you did not plan to pay less! For our firm, our tax-saving pencils are never down because when the "ball drops" on April 15th, we are already starting to plan for the new tax year. Without question, the most significant value received by our tax clients results from our tax planning, not just the preparation of their return.

The following six factors contribute to our successful tax planning process:

1. **Understanding the U.S. Tax Code** – Duh! This goes without saying. It is critical to know what is allowed, what is not allowed, and what is subject to interpretation – the famous "grey area." Tax preparers often steer clients away from a tax-saving strategy because of a potential "Red Flag," supposedly drawing IRS attention. Tax planning eliminates "Red Flags" by establishing a position allowed by the tax code or advising the client to take specific actions that allow the strategy.

2. **Continuing Tax Education** – Unfortunately, the tax code is subject to change. And change it does, often dramatically. It is crucial to be aware of proposed tax changes, their effects, and steps to take advantage of the change.

3. **Avoiding Expensive Mistakes** – There are two types of errors that proper tax planning can help avoid. The first mistake most people think about is "doing something wrong." If the first mistake is "doing something wrong," the second and more impactful mistake is "not doing something right." An adage says, "There is nothing more expensive in life than a missed opportunity." The primary purpose of tax planning is to be thoughtful in seizing all legitimate tax avoidance opportunities.

4. **Tailoring Individual Strategy** – Tax planning is most effective when done in conjunction with achieving your goals. Rather than first thinking of a tax angle, think of a life angle and then find the tax strategy to make it work. In our line of work, we advise clients, "Do not let the tax tail wag the dog!"

5. **Helping Others** – There are powerful tax incentives for those of us who attain great joy in helping others. Tax law is very favorable to those willing to donate to charitable causes. Likewise, less publicized techniques can help family members in a tax-advantaged way, such as providing low-interest rate loans, hiring family members, tax-free gifting, and caregiver stipends.

6. **Eliminating Surprises** – When appropriately done, tax planning provides the roadmap for actions needed to avoid taxes. Remember, it's legal to do so! The steps need to be executed in the current tax year to impact the return you file next April 15th. Alliance of Comprehensive Planners members all integrate tax-focused planning with comprehensive financial planning and investment management. Being able to see the whole picture, solve for competing priorities, make informed short-term and long-term decisions, and have clients engaged in the process is a game-changer. Proper tax planning avoids the anxiety of not knowing how much tax you might owe come next April and the possibility of having a tax due without the funds to pay.

Financial Planning for Starting a Family

By Susan Einberger, CFP®, MBA
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Starting a family is an enormous life change that affects all the core financial planning topics.

Cash Flow

Most couples, gazing lovingly at each other, do not approach starting a family by asking, "how much will this cost?" If they did, birth rates would plummet. Instead, parents adjust their spending and saving. Thus, it is worth understanding how your cash flow will be impacted. The USDA periodically issues a report, "The Cost of Raising a Child." In the latest update (2017), it costs approximately $301,970 to raise a child to age 18, not including college.

Insurance

Health insurers must cover pregnancy and childbirth per the Affordable Care Act. You typically have 30 days after birth to add your baby to your plan. If you miss this window, you may have to wait until the next open enrollment period and your baby will be uninsured until then. Even when everyone is healthy, prenatal, postnatal, and infant care require numerous doctor visits and insurance is of utmost importance. With insurance, having a baby will typically cost thousands depending on the deductible, co-pays, and co-insurance. Without insurance, it will likely cost tens of thousands.

If the expectant mother is working, she should understand her short-term disability policy. Disability insurance replaces the woman's income while on maternity leave. Policies differ in the percentage of income replaced and typically cover six weeks for a delivery without complications and eight weeks for a C-section delivery.

While short-term disability only covers the mother, the Family Medical Leave Act applies to both the mother and father. It provides 12 weeks of unpaid, job-protected leave for the birth or care of a newborn. The employee must have worked for the employer for at least 12 months and take the leave within one year of the child's birth. Employers with 50 or more employees must honor this federal law.

Investments

Your six-month-old may not be trading stocks like the E*Trade baby, but there is one investment new parents should consider starting right away. A 529 plan is the gold standard college savings vehicle. Many states offer tax deductions on contributions, the earnings grow tax-deferred, and the distributions are tax-free if used on qualified education expenses. The flexibility and tax benefits of 529 plans are unmatched given the long list of qualified expenses, the ability to change the beneficiary, and many investment options.

Taxes

Adding child(ren) to your tax return typically allows you to claim the Child Tax Credit and possibly the Dependent Care Credit. Both credits were expanded under the American Rescue Plan for 2021 only. Otherwise, the Child Tax Credit is worth $2,000/per qualifying child for married filing jointly couples with modified AGI up to $400,000. The Dependent Care Credit is more complicated as it integrates with Flexible Spending Accounts. Check with your tax preparer about eligibility for these valuable credits.

Thankfully the government recognizes the expense of raising children and offers these credits to help families. Consider using the Child Tax Credit as a source of funds for your child's 529 Plan. Using a tax credit to fund a tax advantaged account is a win-win strategy! This alone can add up to $36,000, without investment growth, by the time your child graduates from high school.

Retirement

At this point, you may wonder how you will be able to save for retirement. Making decisions about allocating resources is a real concern for working families. Financial planners will usually advise prioritizing retirement savings since Social Security is only intended to be supplemental income. Pay yourself first by contributing to your retirement plan via payroll deductions, then adjust your lifestyle to your take home pay.

Estate Planning

One of the most important tasks to complete upon starting a family is naming a legal guardian to care for your minor child in the unfortunate event you pass before your child is the age of majority. This may be part of a larger estate plan, but it is the minimum parents need to have in place. It is difficult to imagine someone else raising your child, however you will feel better knowing you made the best choice given the circumstances instead of the State intervening. This topic is the least discussed and least favorite to plan for, but an essential component of financial planning for starting a family.

Gratitude, Giving, Financial Health

Keith Spencer, CFP® and Melissa Spencer
Spokane, WA

"Why do we do a thankful tree?" our four-year-old asked as he stretched precariously to place a construction paper leaf on the highest branch he could reach.

Every day between November 1 and Thanksgiving, each member of our family writes something they are thankful for on a construction paper leaf, and adds it to a "Thank Full" tree made of discarded branches.

The things we are thankful for range from serious (our house, food, G-Pa) to pretty hilarious (dirt, my pinky toe, that our dog has fur). But it's not really about the specific things we're thankful for; it's about recognizing how blessed we are and fostering an attitude of gratefulness. And by the time we reach Thanksgiving our "Thank Full" tree is exactly that.

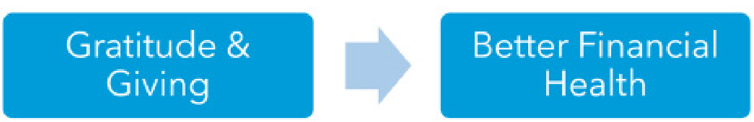
Gratitude & Giving —> Financial Health

Since I'm a financial planner, you may be assuming I'm coming at this from the perspective of encouraging you to improve your financial health, which will lead to a state of gratitude about your finances, which will enable you to give to others.

Better Financial Health —> Gratitude —> Giving

Of course, I whole-heartedly believe you should strive to improve your financial health.

But I also think the equation above is backward. It can work that way, but my opinion is that the equation is better written like this:



Let's see if we can unpack that a bit.

Intentional thankfulness

Intentional thankfulness is a great practice year-round because it helps change our perspective. Viewing finances through a lens of thankfulness and gratitude can ultimately lead to better financial health.

Gratitude can lead to less wasteful spending and impulse buying when we are focused on the blessings we have, rather than the things we don't. Things inevitably will go wrong with our finances and in our lives. But if we start in a place of thankfulness, we're able to withstand those times better.

Gratitude can also lead to improved relationships. Few things disrupt finances more than not being on the same page as a partner. If, as a couple, gratitude is the starting point, including gratitude expressed toward one another, that can lead to a better partnership, more aligned thinking, and less chance of divorce.

Gratitude can also help us achieve financial freedom more quickly. It can help us focus on the long-term rather than pursuing quick fixes. And when we are content with what we have, we may realize that we don't have to keep working and working to get to a "better" place. There truly is such a thing as "enough" when it comes to wealth.

Gratitude can also help us to consider others. When we think about just how blessed we are, it can reveal to us the needs of those around us. Few things bring greater joy than helping someone in need and feeling like you made a difference in their life.

Giving

It can work the other way too, as giving can encourage gratitude in our hearts. It can show up as gratitude that we have the means to give in the first place; that is, gratitude for our money, our health, our time, our talents, and those that are in our lives.

The act of giving may seem like a backward step on the path to financial freedom. After all, money given away can't be put directly toward our financial goals. However, there is a reason it's included as its own box on the Circle of Financial Health:

Why do we aim for financial health and freedom? Because the quality of life and peace of mind it provides makes the effort worthwhile. What could be more worthwhile than knowing we've made a real difference for someone else in the world during our lifetime?

Different types of giving

Giving money is powerful. It can make a material difference for a person, organization, or charity. Whether it's $10 or $10,000,000, the impact is real.

But giving doesn't have to be solely financial. There are other types of giving, such as contributing our time to a cause, organization, or person; lending physical and/or emotional support; or praying for or encouraging someone.

And the recipients of our giving vary as well, ranging from a church, to humanitarian causes, to the next-door neighbor, to our children.

Completing the Circle

Looking back to the Circle of Financial Health, I would say that giving is not only an important part of the Circle. **I would say it actually *completes* the Circle.** Without giving, you don't have a full circle, and don't have true financial health.

As Winston Churchill once said:

"We make a living by what we get. We make a life by what we give."

How to Successfully Retire

When You're Two People and One Couple

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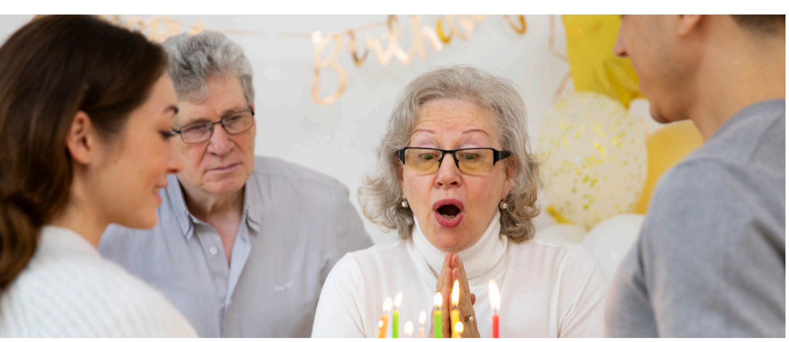
"Experiments are antidotes to discouragement." – Dr. Moira Somers

My work with clients on the financial solutions to How Much? and From Where? begins with listening. I often ask couples "What was money like growing up?" Many times, when couples share these stories with me, they turn and say something like, "I never knew that!" or "I guess this explains why we think about money so differently!"

Our money stories begin early in life and influence our money behaviors, expectations, and decisions. Partners coming from different backgrounds with different experiences are bound to bring to their relationship different money stories. This is a source of tension for some couples before retirement, and the pressure release valve can be found in having individual domains, whether it's dual careers or work outside vs. inside the home.

With retirement this solution can seem untenable—don't we need to iron this out, get on the same page? One wants to travel and take in all the sights, smells and adventures that have only been viewed from the TV screen during years of toil while the other wants to dwell at home, finally available for grandchildren time and hanging out with friends that the workday didn't allow.

These different directions express two mindsets that show up around money and can be represented by a traffic light. Whatever the topic—insurance, what to invest in, how much to keep in cash—Red Light is focused on prevention: fearing loss, the goal is to reduce risk, get to safety, avoid regrets. Green Light is focused on promotion: hoping for gain, the goal is to create more, experience new, and grow.



What I enjoy is helping clients past the impasse of Yellow Light. Unable to see the course where each drives at their preferred speed, the unhappy compromise is to dull the dreams each yearns to pursue. These guided explorations are not the dreaded meetings people have with their financial advisor, the ones documented in studies that conclude it's common for couples to get into the car after their appointment and fight about money. Couples get discouraged from a conversation that seems to be on repeat, a "Groundhog Day" between their worldviews.

Instead the focus is on what I call "lighting the torch," exploring what is essential for each to have in a life they love, and then for each to listen to their partner. A guiding light for weaving the two together is to recognize that if you get everything you want but you don't have a fulfilled partner, you won't be happy.

One of the ways to successfully weave this tapestry is experimentation, which can loosen the grip on old ways of doing things. Take time to explore without the pressure of "getting it right" and build in buffer room. Allow the possibility to adjust course—meaning make as few permanent decisions in the beginning as possible and see it as a period of experimentation and practice.

When you are exploring your options, map out the various scenarios. What challenges might come up? For example, your home might become too big or expensive to maintain. Consider your alternative responses: look at some senior living communities and identify the top three you'd consider if that becomes your most suitable living situation. Look at options for downsizing.

Couples who fail to clarify their financial situation and what really matters in the life they love have a hard time taking the next step, which is to articulate the scenarios that concern them and develop strategies to respond. This leaves them tense about the inevitable uncertainty that comes with aging. The remedy for this discouragement? Take an experimental step.