CLASS #1

W-2 Earnings, Tax Withholding, and Other Payroll

1. **How many have received a W-2 or 1099 in the past two years?**

2. **What rules determine whether someone should be employed as a W-2 or 1099?**

The general rule is that an individual is an independent contractor if the payer has the right to control or direct ONLY the result of the work rather than what will be done and how it will be done.

- **Behavioral:** Does the company have the right to control what the worker does and how and when they do their job?
- **Financial**: Are the business aspects of the worker's job controlled by the payer?
- **Type of Relationship:** Are there written contracts or employee-type benefits (i.e., pension plan, insurance, vacation pay, etc.)? Will the relationship continue, and is the work performed a vital aspect of the business?

3. **What are the tax and insurance implications?**

W-2	**Withholding Taxes**	Employer must deduct from the employee withholding taxes including: • FICA ½ of the Social Security Tax = 6.2% and ½ of the Medicare Tax = 1.45%), the employer pays the other half. (In 2024, the tax applies up to a W-2 income of $168,600). • ADDITIONALLY – if the employee earns more than $200,000 starting in 2013 due to the Affordable Health Care act, the employer must deduct an additional .9% for Medicare tax. • Federal Income Tax, • State and City Income Tax
W-2	**Insurance**	Employer must provide: • Workers Compensation - no contribution from employee is allowed • Unemployment Insurance – no contribution from employee is allowed • State Disability Insurance – max contribution by employee of 60 cents a week of $ 31.20 annually. • Paid Family Leave – max contribution by employee of $333.25 in NYS as of 2024. The premium cost is based on the employee's compensation, employees job and the Employer's prior losses. See: https://www.standard.com/eforms/19866.pdf

1099	**FICA Taxes**	The independent contractor must pay both FICA • the full of the Social Security Tax = 12.4% up to the ANNUAL limit (In 2024 the tax applies up to a net income of $168,600) • the full Medicare Tax = 2.9% The IRS class this called Self Employment Taxes
1099	**Income Taxes**	The independent contractor who is not incorporated, or a single member LLC, reports on Schedule C of their personal tax return their gross income and business expenses to arrive at a NET INCOME. Some independent contractors claim a deduction for home office expenses further reducing their Taxable Income.
1099	**QBI**	Taxable Business Income may be eligible for Qualified Business Incentive credit
1099	**Insurance**	Independent Contractors are NOT covered by workers compensation, state disability insurance, unemployment or paid family medical leave. However independent contractors who believe they have been wrongly classified and should have been considered employees, can bring a claim with a labor department. In those cases if the determination is made by the labor department that an employer-employee relationship existed coverage might be granted. See: https://dol.ny.gov/ui-and-independent-contractors-frequently-asked-questions

FICA is an acronym for "Federal Insurance Contributions Act."
FICA tax is the money taken from workers' paychecks to pay older Americans. It has two parts:

- **OASDI** stands for old age, survivors, and disability insurance tax, but it is commonly called Social Security. It gives older individuals a monthly payment based on their earnings history.

  Social Security can be collected at age 62, but if an individual delays taking social security, the amount they ultimately will receive increases by about 8% annually until the person reaches age 70.

- **Medicare** (Hospital Insurance) benefits are available to individuals aged 65 and older and for those deemed disabled.

4. How does an employer know how much income tax to take from an employee's paycheck?

From the W-4 form which the employee fills out. On the form they list their Marital Status and Number of Dependents. This status, combined with their earnings sets and ESTIMATED rate for taxes. The actual amount due is based on the tax return. (discuss fluctuating incomes)

5. How many paychecks do employees receive annually?

Weekly	52
Bi-Weekly	26
Semi-Monthly	24
Monthly	12

6. **What is the difference between the pay period and the pay date?** And how does the above relate to the W-2? -

Challenge – if the payroll work week went from 12/24 to 12/30/23 and the pay date was 1/4/2024 – would the earnings be reported on the 2023 W-2 or the 2024 W-2?

7. What is an exempt or non-exempt employee?

Both federal law (Fair Labor Standards Act or FLSA) and state law (New York Minimum Wage Act) require the payment of overtime wages for work performed after 40 hours per week. However, there are exceptions. A person NOT subject to overtime rules is called an EXEMPT employee. To be considered an exempt employee, there is both a DUTY and SALARY test:

- DUTY
  - The Employee's primary duty is performing office or non-manual field work related to management policies or general operations.
  - The Employee customarily and regularly exercises discretion and independent judgment.
  - The Employee regularly and directly assists an employer in a bona fide executive or administrative capacity or performs under general supervision work requiring special training, experience, or knowledge.

- EARNINGS –cannot be exempt if they earn less than:

FEDERAL LAW As of	weekly	annual
July 1, 2024	$844	$43,888
January 1, 2025	$1,128	$58,656

NEW YORK STATE LAW as of 1/1/2024	weekly	annual
New York City, Nassau, Suffolk Westchester	$1,200	$ 58,240
New York State other areas	$1,124.20	$58,484

8. Is an employer required to pay for benefits or pay for hours not worked?

Both Federal and State labor laws cover benefits. The more generous provisions will apply.

- **HEALTH INSURANCE –**

While state law does not require employers to provide health insurance, federal law requires employers with 50 or more full-time equivalent employees (FTEs) to provide insurance with minimum essential coverage (MEC).

- **PAID SICK LEAVE, VACATION TIME or PAID TIME OFF**

Governed by STATE law

New York State - Yes, New York State employers must provide paid leave to their employees depending on the number of employees they have:

- 100 or more employees: Must provide up to 56 hours of paid leave per year
- 5–99 employees: Must provide up to 40 hours of paid leave per year
- Four or fewer and a net income of $1 million must provide 40 hours of paid leave
- Four or fewer and a net income UNDER $1 million must provide 40 hours of unpaid leave

In New York – there were separate rules for COVID-19, but they are sunsetting in 2025.

Florida - As of January 2024, Florida law does not require private employers to provide their employees paid sick leave, vacation, or paid time off. If they do, they can decide how it's accrued and used.

9. What is the difference between Gross Pay and Net Pay? When you discuss your salary with your employer – which do you discuss?

10. Discuss the Term CAFETERIA PLAN – and pre-tax deductions. Review typical benefits

- Health Insurance – including Medical, Dental, and Eyeglasses reimbursement
- Health Savings Accounts – allowing employees to save money to be used for medical expenses NOT covered by their insurance
- Day Care for dependents
- Transit Pass for public transportation
- Group Life Insurance.
- Supplemental Benefits Disability Benefits
- Tuition Reimbursement Program.
- Paid Holidays.
- RETIREMENT PLANS **– called a** 401 K (for employees of profit companies in the private sector) or a 403B (for employees of government and nonprofit agencies)

Most employers offer two types of Retirement Plans: Traditional and Roth.

	Do current year contributions reduce your taxable income?	Does the plan grow tax free, including interest, dividends, capital gains?	Upon Withdrawal are the withdrawals taxed?	Can you borrow from the plan without a penalty?
TRADITIONAL retirement plan	YES	YES	YES	Depends on your plan – this is a decision made by the employer
ROTH retirement plan	NO	YES	NO	Depends on your plan – this is a decision made by the employer

Discuss –

- Which is better – a Traditional or a Roth retirement plan?
- What should guide your decision in which to enroll?
- Can you have both a Traditional and a Roth retirement plan?
- What is a match?
- What is vesting?
- When can a person withdraw their money?
- What happens if a person withdraws their money prematurely?
- What should you do with your 401K or 403B plan balance when you leave an employer?
- Why is the term ROLL OVER so critical?
- Which dictates who gets my 401K or 403B when I die, my Will or my beneficiary?
- What happens if you inherited an IRA

HANDOUT 1.25 Questions to ask a prospective W-2 Employer regarding compensation, benefits, and advancement.

Review the paycheck – stub.

Review W-2 form –

- Emphasize the difference between Federal Wages (box 1), Social Security Wages, and Medicare Wage (Box 3 & Box 5)
- Discuss State tax rules.

1.91a HOMEWORK – to be emailed includes several items, including EXERCISE 1.11a Prepare Maria's W-2

CLASS #1 ENDS

CLASS #2 - Independent Contractors

1. **What are things to consider when offering your service as an independent contractor?**
- Consider the extra cost of self-employment taxes.
- Calculate that your earnings must cover the unworked time taken for holidays, illness, personal events, and vacation.
- Consider that you will need to pay for your own health insurance a
- Consider that you will need to fund your own retirement account.
- Consider you will need to provide liability insurance

2. **How does the IRS test to see if someone is an independent contractor?**

Review the 20-point test - Handout 2.05

3. **What must Independent Contractors sign for tax reporting?**

Review the Form W-9 – required of all NON-Incorporated businesses

4. **What are the reporting requirements when you hire an Independent Contractor?**
- Review 1099
- When is a 1099 issued?
  Payments of at least $10 in royalties
  Broker payments instead of dividends or tax-exempt interest

At least $600 in:
  - Rents (box 1);
  - Prizes and awards (box 3);
  - Other income payments (box 3);
  - Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3);
  - Any fishing boat proceeds (box 5);
  - Medical and health care payments (box 6);
  - Crop insurance proceeds (box 9);
  - Payments to an attorney (box 10)
  - Section 409A deferrals (box 12); or
  - Nonqualified deferred compensation (box 14).

  Mention special rules for attorneys

5. **By what date must the completed 1099 be sent?**
- Is a copy sent to the IRS?

6. **Exercise 2.11a Prepare Maria's 1099**
- How many 1099s will Maria receive?

- Review Maria's completed 1099

7. What happens when independent contractors receive cash?

- Must it be reported if they do not get a 1099?

8. How do solo entrepreneurs and single-owner LLCs report their business income?

- Review Schedule C
- Discuss how to set up bookkeeping to make tax reporting easy

CLASS #2 ENDS

CLASS # 3 – Cash Flow Statement AKA a Budget

1. What is a Cash Flow Statement (CFS)?

A cash flow statement lists all the cash that flows into a household and all that flows out over a given period.

2. What is the recommended "Period" and why?

A CFS should always be prepared on an ANNUAL basis because many items only occur once a year, and it is easy to forget if the CFS is done monthly.

This means that all items must be "annualized," so if you receive something weekly, it must be multiplied by 52; if you pay something monthly, it must be multiplied by 12, etc.

3. What is the purpose of the Cash Flow Statement?

The primary purpose is to determine if the household will be cash-positive or cash-negative at the end of the period.

- If the household is cash-negative, increasing credit card debt is the primary method to close the gap. This creates a decrease in net worth.
- If the household is cash-positive, there are opportunities to strategically invest the excess to get closer to personal goals and increase net worth/

Additionally, a household may want to identify:

- What percentage does each person contribute towards cash inflow and outflow? *This is particularly important in case of a divorce.*
- How much does a cash source contribute towards the total cash inflow, measured as a percent?
- How much does each expense contribute towards total outflow measured as a percent?

4. What stops individuals from preparing a Cash Flow Statement?

In my years of teaching, I have been surprised by clients' resistance to preparing a cash flow statement. It is not that they don't think it is valuable, but instead, they are scared to commit their financial situation to writing, almost as though by putting it on paper, the situation becomes more real.

When I challenge people to do the exercise, my typical response is, "Well, I have it more-or-less in my head." But what we have in our mind is often our intuition, which can differ from the facts. Preparing the Cash Flow Statement helps us move away from intuition and gather factual data. Then, we can use those facts to make changes if we choose.

If you are stuck in that fearful place, remember that measurement is NOT a judgment.

A client forwarded me the below quote, which I believe sums it up:

Unfortunately, we often avoid measuring because we fear what the numbers will tell us about ourselves. The trick is to realize that measuring is **not a judgment** about who you are; it's just feedback on where you are.

Measure to discover, to find out, to understand. Measure to get to know yourself better. Measure to see if you're spending time on the things that are important to you. Measure because it will help you focus on the things that matter and ignore those that don't.

SOURCE: James Clear – on Focus https://jamesclear.com/focus.

5. Steps to preparing a Cash Flow Statement (CFS).

A cash flow statement must be written down. It cannot be in your head.

Use a budget form as guidance, and if possible, prepare with Excel

It is best to use a form that lists typical household cash sources and uses them as it reminds people of items they might have overlooked.

Form 3.01 has been developed from the Divorce Court system, whereby the Court needs to assess a household's finances. It has over 90 categories and is a helpful first step as it will jog your memory about typical expenses.

Start with a rough estimate of the prior year.

The CFS statement should be made for the first time using rough estimates; the run-through should take at most 20 minutes. It is suggested that the CFS be prepared based on the PRIOR full year, i.e., if it is 2024, prepare the CFS for 2023. This allows you to verify if your projections were accurate.

Refine the estimate using bank and credit card statements and tax returns.

- Download all bank and credit card transactions into an Excel file,
- Assign a category number or name to each transaction,
- Sort and total by category.
- Enter the total on the spreadsheet.

This technique is time-consuming but gives the most accurate measurement and helps get records in shape for tax filing.

Forecast for the current year

It is time to forecast forward after you have an accurate picture of the prior year.

Interestingly, most people's outflows do not change significantly from year to year. The significant changes tend to be on cash inflows, for example, if a person loses their job or changes employment. If you do this exercise on an annual basis, it will become easier.

6. What are common CFS categories?

While form 3.01 lists over 90 categories, on an ongoing basis, it is more practical to consolidate so that there are no more than 25 categories. Here are some typical groupings:

Cash Sources

1. W-2 earnings
2. Interest and Dividends on Investments
3. 401K or IRA Distributions
4. Rental Property Income
5. Business Related Income
6. One-time events
   - *Sale of Assets*
   - *Insurance proceeds*
   - *Gifts or "loans from family and friends."*
   - *Inheritance*

Cash Uses

7. **Housing with Maintenance Costs** –rent, mortgage, real estate taxes, utilities, cable/internet, phone landlines, maintenance interior and exterior, housekeeping, and housing insurance policies.
8. **Food at home** includes sundry cleaning & household items, drugs
9. **Transportation** -public transportation, car payments, car insurance, tolls, car maintenance.
10. **Discretionary** - clothing, entertainment, cell phone, sports, gifts, vacations, restaurants, subscriptions, charitable contributions.
11. **Children or other Dependents** - childcare, education, children's clothing, school lunch, trips, books, sports programs, camps.
12. **Medical costs,** including medical insurance premiums, drugs, and doctor/hospital copay.
13. **Insurance** - other than housing and medical – i.e., life insurance, umbrella policies)
14. **Taxes** - withholding, estimated, paid at the time of filing
15. **Debt Repayment** would cover payments towards prior year balances and interest payments. Current year expenses should be listed in the proper category.
16. **Savings**, including contributions to retirement plans
17. **One-time expenses –** special non-recurring events, significant capital improvements, downpayments for major asset purchases (i.e. house)
18. **Business-related expenses or professional fees,** including legal and accounting assistance.

7. What are typical challenges that occur in preparing a CFS?

Salaried employees should report their GROSS INCOME as the cash inflow and then enter the deductions for taxes, medical insurance, retirement plan contributions, and any other deductions as a cash outflow. It is important not to list only the net income because you should know the cost of each deduction.

Households with more than one person should separate the cash inflow and outflow per person – that is one of the reasons Form 3.01 has two columns. Both parties must see the big picture and understand the consequences if one person loses their income.

Business Owners should decide how they want to account for business income and expenses. One method is to use the same form but enter business-related items in a separate column. This is particularly helpful for start-ups with minimal income but several expenses. A separate column makes it easier to calculate the net effect of starting the business. Established businesses might keep their records separate and only record the cash the owner can take from the company on the owner's CFS.

8. How does a Cash Flow Statement differ from a Personal Financial Statement?

As stated above, a Cash Flow Statement measures cash movement in and out of a household over time. A personal financial statement is done at a point in time, often December 31st. It lists everything you have that can be turned into cash (ASSET) and everything you owe as of that moment (LIABILITY). The difference between the two is your Net Worth. For Example:

	Cash Flow Statement	Personal Financial Statement
Rent – if your rent is $1,000 monthly and by 12/31 all rent was paid	$12,000 cash outflow rent	No entry
Rent – if your rent is $1,000 monthly and on12/31 you owed two months' rent.	$12,000 cash outflow rent	$2,000 as a LIABILITY - accounts payable
Savings Account – if you earned $500 in interest income during the year and on 12/31 had a balance of $5,500	$ 500 cash source interest income	$5,500 as an ASSET - cash savings account
Retirement Account if you were contributing $100 per week to your 401K, and your employer matched it with $50 weekly, and at the end of the year	$ 5200 cash outflow – retirement savings *The employer's contribution would NOT be listed as it is*	$22,000 as an ASSET – Retirement Account. *It is accepted practice to include the total value of the account including an employer's match.*

the account value including prior year contributions was $22,000	*not coming from household funds*	

9. How does the CFS tie into the Personal Financial Statement?

If a person has a negative cash flow, their Net Worth will decrease in the coming period. Americans typically bridge the gap by increasing credit card debt but can also deplete savings or sell assets.

If a person has a positive cash flow, their Net Worth will increase in the coming period. This usually shows up as an increase in Assets, whether a savings, investment, or retirement account.

10. What happens in retirement with a CFS?

In retirement, the most significant change is that a person's work income disappears as a Cash Source, and often, it is partially replaced by receipt of social security and drawing on savings.

This will result in a decrease in Net Worth. However, if this is anticipated and planned, a person can have a comfortable, worry-free retirement.

REFERENCE
FORM 3.01 Budget - Cash Flow Statement

What is a good system – one you will maintain

Cash budget best for Personal Finances (discuss accrual accounting)

Annualized vs Monthly budgets – seasonal fluctuations,

Budgeting for specific purposes

Integrating business income into a personal budget