

# BUSINESS

## MONEY COUNTS

# LIFE CYCLES AND THE FINANCIAL PLANNING PROCESS

by Marcel Carter  
PART I

To effectively manage your financial affairs, it is important to understand where you fall in the financial life cycle. Keep in mind that the scenarios developed in the next three issues of *Makes Sense*—Early years, middle years and later years—are just generalizations, based upon the life cycle of a "typical" individual.

Your personal situation more than likely will vary, depending on your particular circumstances. This is the first article:

### The Early Years: Starting Off Right

The early years, often characterized by a rises in income, career success and personal responsibilities, encompass a wide range of financial opportunities and promise, as well as strate-

gic planning decisions. These decisions are significant because they will affect your financial strength today and in the years to come.

Beginning this life cycle requires careful planning to bring spending in line, in order to accomplish your savings goals and construct your future nest egg.

### Establish a Savings Plan

One of your first financial objectives should be to establish a workable savings plan. Enhancing your savings potential in the early years can get you started on building your asset base and enable you to make major purchases such as an automobile or home.

### Develop a Monthly Budget

To monitor cash flow, a carefully planned monthly income and expense budget will give you a clear picture of current and projected expenses and allow you to set more effective, realistic future goals. In addition, a budget will help you determine the amount you can comfortably save and invest.

### Build Cash Reserves

Cash reserve funds will help protect you against unexpected financial needs and cushion you from economic or personal emergencies. Each individual has his or her own level of need, and comfort when it comes to readily available funds, but most experts recommend having at least three-to-six months' worth of fixed living expenses in reserve.

### Protect Your Loved Ones

During the early years, adequate life insurance is vital for

the protection of your loved ones. Insurance is also a vehicle for creating substantial net worth in the event of your death. This factor is significant in the early years, when asset accumulation is just beginning. Disability and health insurance are also necessary to protect against any long term injuries or illness. Your insurance program should be evaluated periodically to determine if it is still meeting your family's needs.

### Write or Update your Will

Estate planning also should be an integral part of your ongoing financial planning process. Anyone who has any money, assets or property has a *living estate*. Establishing a will allow you to provide for the distribution of your assets according to your wishes, benefiting those whom you choose. Furthermore, a will allows you to name a guardian for your minor children.

### Start an Investment Program

With the initial financial planning needs for cash reserves and insurance taken care of, you are ready to begin building an investment portfolio. This may be the time to take advantage of the growth opportunities available through stock mutual funds.

One approach is to "make savings a regular expense," by seeing that a specified amount of your monthly income is set aside or invested in a fund, group of funds, or savings vehicle of your choice. Each month you purchase the same amount regardless of what the market is doing. This technique is called *Dollar Cost Averaging*.

### Plan for Retirement

Retirement Planning at this point not only builds for the future, but also helps reduce your current tax burden. Individual Retirement Accounts (IRA's), Keogh plans (for the self-employed) and 401(K)'s (company sponsored deferred compensation plans are retirement vehicles especially valuable as long term tax shelters.

### Summary

In review of the early years, one can see that this stage exemplifies a period of change and growth. Advantages of a rising income and lifestyle changes lead to further responsibilities in managing your money wisely. The next stage in life—the middle—becomes a time of asset accumulation as your career development peaks along with income.

## FOR THOSE OF YOU WITH A "LITTLE SOMETHING" ON THE SIDE

# SMALL BUSINESS TAX TIPS

## MAGIC WORDS THAT MAKE EXPENSES DEDUCTIBLE

By Samuel Morris

All self employed income is taxable net of all "ordinary and necessary" business expenses. What is meant by ordinary is: customary, usual, familiar, unexceptional, common, credible, believable, prima-facie acceptance. Necessary implies: essential, indispensable, inevitable, required, etc. This is the first test to be a business ex-

pense. Necessary is modified by IRS to include helpful, needed and appropriate. Therefore, to be an expense it must be: 1) Helpful to your pursuit of business. 2) Needed to make money. 3) Appropriate to your pursuit of business.

Every business must have a direct (not remote) relationship to existing business pursuits to qualify as ordinary and neces-

sary. This is determination of whether it is ordinary and necessary, direct or remote is the vast gray area that is determined by the facts and circumstances provided by you to the IRS. Our Income Tax is based on gross income from all sources derived less certain specific deduction allowed in the IRS. > Because you do something that is reasonable and familiar to you in the pursuit of income.... How you describe it to the IRS may be the difference between a tax deduction or a disallowance.

### Proving Facts:

At this point, I must emphasize the importance of keeping appropriate books and records. The burden of proof of an expense is totally on you. The IRS is not required to prove that a  
(See Tax Tips, Page 20)

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Are you tired of apartment living? Are you just a little wary of sharing your walls with another condo owner? Then Barcelona is for you, with three plans ranging from 967 sq. ft. to 1,155 sq. ft. And one of the homes has two complete master suites!

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