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### Tax Planning Guide



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## April 2014

### April is tax filing time

Tuesday, April 15, is the deadline for filing certain returns and taking certain tax-related actions. Here are the major deadlines.

- Filing 2013 income tax returns for individuals. If you cannot file your return by this deadline, be sure to file an extension request by April 15. The automatic extension (you don't need to explain to the IRS why you need more time) gives you until October 15, 2014, to file your return. An extension does not, generally, give you more time to pay taxes you still owe. To avoid penalty and interest charges, taxes must be paid by April 15.
- Filing 2013 partnership returns for calendar-year partnerships.
- Filing 2013 income tax returns for calendar-year trusts and estates.
- Filing 2013 annual gift tax returns.
- Making 2013 IRA contributions.
- Paying the first quarterly installment of 2014 individual estimated tax.
- Amending 2010 individual tax returns (unless the 2010 return had a filing extension).
- Original filing of 2010 individual income tax return to claim a refund of taxes. Some taxpayers have tax refunds due them for prior years, and unless a return is filed to claim the refund by the three-year statute of limitations, the refund is lost forever.

### Pay attention to your MAGI to qualify for tax breaks

Take a look at your 2013 tax return after it's prepared. How close to the edge did you come to losing tax benefits due to tax phase-outs? As you begin your 2014 tax planning, consider the effects of these benefit-limiting provisions, many of which are based on modified adjusted gross income, or MAGI. Knowing how close you are to the "edge" can help you preserve tax breaks for 2014.

*A caution:* Since the definition of MAGI as applicable to individual phase-outs varies, you might have to choose between conflicting opportunities. For instance, if you have a child in college this semester, the American Opportunity Credit and the Lifetime Learning Credit may be on your mind. Both benefits are education-related, yet the qualifying requirements differ – including the MAGI threshold.

- **Education benefits.** The American Opportunity Credit is a partially refundable, dollar-for-dollar reduction of your tax bill, with a maximum of \$2,500 per student. This year the credit starts to shrink when your MAGI reaches \$160,000 and you're married filing jointly (\$80,000 when you're

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single). It disappears completely when your MAGI is greater than \$180,000 for joint returns, and \$90,000 when your filing status is single.

For 2014, the Lifetime Learning Credit begins to phase out at \$108,000 when you're married filing a joint return and \$54,000 when you're single. Once your MAGI reaches \$128,000 (married) or \$64,000 (single), the credit is no longer available.

Other education benefits, such as the above-the-line tuition and fees deduction, also have MAGI limitations. If you qualify, you can claim the maximum annual limit of \$4,000 when you're married filing jointly and your MAGI does not exceed \$130,000 (\$65,000 if you're single). The deduction phases out completely when your income reaches \$160,000 (\$80,000 for singles).

- **Retirement plans.** Phase-outs affect retirement planning too. The deduction for contributions to your traditional IRA is limited when you are eligible to participate in your employer's plan and your MAGI exceeds \$96,000 (\$60,000 when you're single).

And while Roth IRA contributions are not tax-deductible, the amount you can contribute for 2014 begins to phase out when your MAGI reaches \$181,000 (\$114,000 if you file single).

In addition, the federal "saver's" credit for making contributions to retirement plans phases out when your 2014 modified adjusted gross income is more than \$60,000 and your filing status is married filing jointly (\$30,000 for singles).

- **Other phase-outs.** Finally, the exclusion of social security benefits from taxable income also has a phase-out calculated on the amount of your MAGI over the base amount of \$32,000 when you're married and \$25,000 when you're single.

Other phase-outs affecting your 2014 federal tax return reduce personal exemptions, itemized deductions, and the alternative minimum tax exclusion.

Contact our office for guidance in managing income for maximum tax breaks.

## Financial tips for the 20-something generation

The earlier you start, the easier it will be to get ahead financially. Here are some recommendations for those in their early twenties.

**Pay yourself first.** Every time you get paid, put something aside in a savings or investment account. As a general rule, save 10% of your income. Even smaller amounts add up over time.

**Watch your plastic.** Credit cards are an expensive form of debt, and it's easy to lose control of them. Try to pay your entire credit balance every month, even if it's a stretch. If you've been carrying a balance, buy nothing more on credit until the balance is zero.

**Keep a clean credit record.** If you plan to own a home, buy a car, or start a business, you're going to need squeaky-clean credit. Keep all of your financial obligations current, and never make a financial commitment that you can't keep. If you fall behind on any obligation, talk to the creditor immediately to make alternative arrangements.

**Make sure you have adequate medical coverage.** You may not see a doctor even once this year. But if you do need medical care, it could be for something serious and expensive. Anything less than a good major medical policy could ruin you financially.

**Watch your expenses.** At this point in your career, you may not receive large or frequent pay raises, but you can achieve the same effect by cutting expenses. Shop before you buy. Very similar – and sometimes identical products – are sold at widely varying prices. Wise shopping can be the equivalent of having a good-paying second job.

For assistance with financial strategies suitable for your particular age and situation, give us a call.

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*

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