

LearnVest Classes

Taxes Challenge



Taxes: The Aftermath



LEARNVEST™

Resources

What Does Your Refund Tell You?

Getting a large refund isn't necessarily what you're striving for. Whether you need to make some adjustments to your withholdings is generally based on the amount of your refund.

- ★ If you got back less than \$1,000, then you probably don't need to make adjustments. It's near impossible to get an exact \$0 tax bill, so if you're in this range, consider yourself in good shape.
- ★ If your refund was more than \$1,000 this year, consider adjusting your withholding, which is the portion of your wages that are withheld from your paycheck in order to pay taxes.

Adjusting Your Withholding: This involves changing the number of allowances on your W-4 to get more money throughout the year. This amount is based on your income, your marital status, the number of dependents you claim, and other factors as listed on the personal allowance worksheet of your W-4. The more allowances you give yourself, the less money comes out of your paycheck for taxes—and the more take-home pay you have to put to other uses.

Personal Allowances Worksheet (Keep for your records.)

| | | | | | | |
|----------|--|----------|--|---|----------|---------------|
| A | Enter "1" for yourself if no one else can claim you as a dependent | A | <u> </u> | | | |
| B | Enter "1" if: <table border="0" style="display: inline-table; vertical-align: middle;"><tr><td style="font-size: 3em; vertical-align: middle;">{</td><td style="padding: 0 10px;">• You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.</td><td style="font-size: 3em; vertical-align: middle;">}</td></tr></table> | { | • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. | } | B | <u> </u> |
| { | • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less. | } | | | | |
| C | Enter "1" for your spouse . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) | C | <u> </u> | | | |
| D | Enter number of dependents (other than your spouse or yourself) you will claim on your tax return | D | <u> </u> | | | |
| E | Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above) | E | <u> </u> | | | |
| F | Enter "1" if you have at least \$2,000 of child or dependent care expenses for which you plan to claim a credit (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.) | F | <u> </u> | | | |
| G | Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than \$65,000 (\$95,000 if married), enter "2" for each eligible child; then less "1" if you have three to six eligible children or less "2" if you have seven or more eligible children. • If your total income will be between \$65,000 and \$84,000 (\$95,000 and \$119,000 if married), enter "1" for each eligible child | G | <u> </u> | | | |
| H | Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ► | H | <u> </u> | | | |

For accuracy, **complete all worksheets that apply.**

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| { | <ul style="list-style-type: none">• If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.• If you are single and have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$50,000 (\$20,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld.• If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below. | } |
|---|--|---|

Source: <http://www.irs.gov/pub/irs-pdf/fw4.pdf>

Need help?

The [IRS' withholding calculator](#) on their website can help you determine whether you may need to adjust your allowances and update your W-4 with your employer.

What Can You Do With Your Refund?

If you're expecting some money back, consider setting aside 10% for something fun, like a weekend getaway or that new gadget you've been eyeing. The remaining 90% could be used in a number of different ways. Here are some ideas to consider:

Your 90% Could Be...

- Split evenly between emergency savings and credit card debt
- Put toward high-interest debt
- Added to savings or retirement goals
- Placed in a brokerage account

What Can You Do If You Owe Money?

If you do owe and you haven't got quite enough in your bank account to cover the amount, there are a couple of different ways to consider footing the bill:

If What You Owe Is...

- Small: Consider paying by credit card, then pay the card off in full
- Medium: Consider a low-interest personal loan
- Large: Consider applying for an IRS installment plan

What If You Made A Mistake?

What if you've filed for the year, but you think you've made a mistake on your tax return—like failing to report some income, taking credits and deductions you weren't entitled to, or not taking them if you were, in fact, eligible for some? Don't worry—you can file an amended return, using Form 1040X. Just make sure to include a copy of the old return, plus any of the required schedules or worksheets.

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| Form 1040X Rev. December 2013) | Department of the Treasury—Internal Revenue Service Amended U.S. Individual Income Tax Return ▶ Information about Form 1040X and its separate instructions is at www.irs.gov/form1040x . | OMB No. 1545-0074 |
| This return is for calendar year <input type="checkbox"/> 2013 <input type="checkbox"/> 2012 <input type="checkbox"/> 2011 <input type="checkbox"/> 2010 Other year. Enter one: calendar year <input type="checkbox"/> or fiscal year (month and year ended): <input type="checkbox"/> | | |
| Your first name and initial | Last name | Your social security number |
| If a joint return, spouse's first name and initial | Last name | Spouse's social security number |
| Home address (number and street). If you have a P.O. box, see instructions. | | Apt. no. |
| Your phone number | | |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). | | |
| Foreign country name | Foreign province/state/county | Foreign postal code |
| Amended return filing status. You must check one box even if you are not changing your filing status. Caution. In general, you cannot change your filing status from joint to separate returns after the due date. | | |
| <input type="checkbox"/> Single | <input type="checkbox"/> Married filing jointly | <input type="checkbox"/> Married filing separately |
| <input type="checkbox"/> Qualifying widow(er) | <input type="checkbox"/> Head of household (If the qualifying person is a child but not your dependent, see instructions.) | |

Source: <http://www.irs.gov/pub/irs-pdf/f1040x.pdf>

Exercises

Start Considering Next Year's Deductions and Credits

You can use this checklist to start thinking about potential tax benefits (and how to best organize your paperwork!) for the coming year.

| Common Deduction | Potential Deduction? (Y/N) |
|---|----------------------------|
| <p>Educator Expenses If you are a K-12 teacher, principal, counselor or aide who worked for at least 900 hours during the school year, you can deduct up to an IRS-specified amount for books and other educational supplies that your employer didn't reimburse you for on line 23 of your 1040 form.</p> | |
| <p>Health Savings Account (HSA) Contributions If you are part of a high-deductible health plan, and you contributed to a Health Savings Account, or HSA, you can deduct the contribution you made into the account for the year.</p> | |
| <p>Moving Expenses You can deduct costs for a job-related move, like mileage reimbursement for any driving that you did during the move and lodging costs that you paid as a result of the move. Your new workplace must be at least 50 miles farther from your old home than your old workplace was from your old home. (Form 3903 helps you determine whether you are eligible to deduct moving expenses).</p> | |
| <p>Alimony If you pay alimony, you can deduct that amount. Remember to include the Social Security number of the person to whom you paid it on your tax form.</p> | |
| <p>Penalties on an Early Withdrawal of Savings If you withdraw funds from a CD or other types of time-deposit savings accounts, and you pay an early withdrawal penalty, you can deduct those costs. You should use Form 1099-INT (the form you use to report interest income) to determine the number you need.</p> | |
| <p>Traditional IRA Contributions If you make contributions to a traditional IRA (not a Roth!) this year, and you have earned income, you can complete line 32 to note this deduction. Your deduction may be limited if you (or your spouse) are covered by a retirement plan at work and you exceed certain income levels.</p> | |

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| <p>Student Loan Interest</p> <p>You can deduct up to a specified amount for the interest you pay on a qualified student loan for yourself, your spouse or a dependent.</p> <p>You can't take this deduction if you can be claimed as a dependent on your parents' tax return, you're married filing separately or if your adjusted gross income exceeds IRS-specified limits.</p> | |
| <p>Tuition and Fees</p> <p>You can take a deduction if you pay qualified tuition and fees for yourself, your spouse or your dependents; you are not filing under the status "married filing separately"; you can't be claimed as a dependent on your parents' tax returns; and your adjusted gross income falls within a range allowed by the IRS.</p> | |
| <p>Medical & Dental Expenses</p> <p>For medical and dental expenses, you can deduct the portion of your costs (and those for your spouse and dependents) that exceeds 10% of your adjusted gross income. Expenses include things like medical and dental insurance premiums, as well as qualified long-term care insurance. But keep in mind that you can't deduct insurance premiums that are paid with pretax dollars or Medicare taxes, nor can you deduct medical or long-term-care insurance costs that you take above your adjusted gross income line.</p> | |
| <p>State & Local Taxes</p> <p>You have the choice to deduct either your state and local income taxes OR your state and local sales taxes—and you should choose whichever is higher. If you opt to deduct sales taxes, you can choose between actual expenses or use a sales tax table or a sales tax deduction calculator available on the IRS website.</p> <p>If you live in a state that either charges no income tax or only taxes income from interest and dividends, you can deduct your state's sales taxes instead. The IRS has established a standard sales tax deduction for all 50 states, but if you live in a state that collects income tax, it probably makes more sense to deduct that instead. It ultimately depends on each person's specific situation.</p> | |

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| <p>Real Estate Taxes</p> <p>The property tax you pay each year is deductible. Usually these property taxes are paid as part of your monthly loan payments. You can often find that amount reported on the mortgage interest statement, Form 1098, you receive at year end. Real estate taxes can be deducted on federal returns, even though they may not be deductible in the state where the property is located.</p> | |
| <p>Personal Property Taxes</p> <p>The most common personal property tax deduction is the yearly auto registration fee for your car. Part of the fee is based on the car's value and that portion can be deducted. So when you pay your auto registration, file the bill and keep a copy of the check.</p> | |
| <p>Home Mortgage Interest</p> <p>You can deduct interest on a property that is your primary or secondary home up to the first million dollars of secured debt. So if you buy a \$400,000 home with a \$350,000 mortgage, the interest on that \$350,000 mortgage is tax-deductible. How do you know that amount? Your lender should be sending you a Form 1098 that indicates how much mortgage interest you paid last year. If your mortgage is over \$1 million, the IRS will limit your deduction.</p> | |
| <p>Unreimbursed Employee Expenses</p> <p>You can write off unreimbursed employee expenses related to your job once they meet the 2% AGI floor. This includes travel, transportation, meals, supplies, uniforms, professional dues, fees, entertainment and education expenses incurred for your job. Things like business-related coffees and lunches are only 50% deductible.</p> | |
| <p>Tax Prep Fees</p> <p>If you work with a tax preparer, you can deduct your tax preparation fee. If you go it alone, you can deduct the cost of any tax preparation software or books you buy, and any charges incurred while filing or paying your taxes online.</p> | |
| <p>Investment Fees</p> <p>These are considered miscellaneous itemized deductions and are subject to the 2% AGI floor. These include things like fees for investment counsel and advice, subscriptions to financial publications, software to manage investments and safe deposit box rentals.</p> | |

Self-Employed Deductions

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| <p>Home Office</p> <p>You can take a deduction for home office space based on the percentage of your home that is dedicated to business use. But you must use that space regularly and exclusively for business (not for personal or family use), and it should be your principal place of business. There is also a rule that gives taxpayers the option of a “standard” home office deduction of \$5 for every square foot of office space up to 300 square feet.</p> | |
| <p>Auto Expenses</p> <p>When you drive for business, you can use the IRS mileage rate to figure out your deduction. Alternatively, you can deduct your actual car expenses, including things like registration, insurance and maintenance. If you plan to use mileage, maintain a log that includes the date, number of miles traveled and the reason for travel.</p> | |
| <p>Other Work-Related Expenses</p> <p>Work-related costs such as educational expenses are deductible. The same goes for business-related meals and entertainment (which are 50% deductible), interest paid on a business credit card, travel, office supplies and even internet and phone costs.</p> | |
| <p>Portion of Your Self-Employment Tax</p> <p>If you pay self-employment tax, you can deduct 50% of what you pay. Self-employment tax refers to Social Security and Medicare taxes that self-employed people pay both as the employer and the employee of their company. Schedule SE is a great resource for figuring out what number to use here.</p> | |
| <p>Contributions to Self-Employment Retirement Plans</p> <p>You can deduct contributions to SEP IRAs, SIMPLE IRAs and Qualified Plans.</p> | |
| <p>Self-Employed Health Insurance Premiums</p> <p>If you own your own business and you have a health insurance plan under that business, you can deduct the premiums you pay. Note that the insurance plan must be established under the business, and your deduction cannot be more than your earned income.</p> | |

Common Credits

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| <p>American Opportunity Tax Credit This credit helps pay for qualified college costs. You may be able to receive an annual credit of up to \$2,500 per student if you meet IRS income requirements. This credit has been extended through December 2017.</p> | |
| <p>Earned Income Credit This credit helps offset costs for low to moderate income taxpayers. The amount of the credit depends on the recipient's income and number of children.</p> | |
| <p>The Adoption Credit The adoption credit helps offset qualified costs paid to adopt an eligible child.</p> | |
| <p>Child Tax Credit You could claim up to \$1,000 for each qualifying child in your family.</p> | |
| <p>Child and Dependent Care Credit You may be able to claim the child and dependent care credit if you paid work-related expenses for the care of a qualifying individual. Work-related expenses are those paid for the care of a qualifying individual that enable you to work or actively look for work.</p> | |
| <p>Lifetime Learning Credit This credit is for qualified tuition and related expenses paid for eligible students. It can help pay for undergraduate, graduate and professional degree courses—including courses to acquire or improve job skills. It is worth up to \$2,000 per tax return.</p> | |

You Made It!

Next Steps to Consider:

The Aftermath:

- If you had a large refund this year, use the IRS' withholding calculator on their website to help determine whether you need to adjust your allowances and update your W-4 with your employer.
- If you had a refund, decide how you might want to use it.
- If you owe money, consider your repayment options.
- If you made a mistake on your return, you can file an amended return using Form 1040X.

Getting Organized:

- Consider which deductions and credits you might take in the coming year.
- Create a separate file for this year's tax documents and receipts.
- Create a spreadsheet to track your deductible expenses.
- Create a "Tax Deductible" folder in your Money Center.
- If you're a premium member, upload your digital tax documents to your Doc Vault for safe keeping.
- If you're a freelancer, set up a separate "Sometimes" Account to help prepare for quarterly tax payments.



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