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Newsletter

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Welcome to spring! It has been a particularly cold and long winter for those who live in the northern half of the country. I managed to thaw out with a post-tax season vacation to the southwest, visiting Grand Canyon, Bryce Canyon and Zion National Parks with my family.

The theme of this newsletter is somewhat summer related. The first article is targeted toward those people with children or grandchildren who may be taking on a part-time job this summer. I share with you a way to potentially avoid filing a 2014 income tax return for those young workers.

The second article provides some tips if you are planning to travel abroad this summer.

The third and fourth articles discuss several issues related to higher education.

Finally, the last article discusses whether you are ready to retire or not. Retirement will be the focus of my next newsletter.

I hope you enjoy these articles and find them helpful. Please email or call if you wish to set up an appointment or have any questions.

Eric

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How to Legally Avoid Filing a Tax Return

Has your son or daughter (or grandson or granddaughter) ever had a part-time job, had withholding, and filed a tax return only to get back their withholding? I see this occur every tax season, and I am hoping that this article will prevent some of those filings for 2014. I promise to tell you *how* to avoid this needless tax filing at the end of the article, but first a little background on why this could be an issue for *you* , and not just them.

If you have a son or daughter in high school or college, you are mostly likely still taking a dependency exemption for them. This is $3,900 that you get to deduct on your tax return, because you are supporting them. This dependency exemption is worth anywhere from about $600 (if you are in the 15% tax bracket) to more than $1,000 if you are in the 25% or higher tax bracket.

Let's say your son or daughter does the hard working thing and gets a job over the summer. The next January they get a W-2 from the employer. Low and behold they had $240 of withholding on their $2,400 of earnings. You check (or call me) and find that they do not have a filing requirement, but of course, they want their $240 back. So perhaps you think “hey, this will be a good learning experience. Jack/Jill can file his/her own return, learn something in the process and get their $240 back.” So they do. Then a month or so later you go to file your own return, only to have it rejected by the IRS. Turns out, Jack/Jill took their own dependency exemption on their return, so it is not available to you. You can file an extension of your return, amend their return, and then take the dependency exemption in a few months (when their amended return is processed.) But there is a better way. What if they don't have ANY withholding at their part-time summer job and they don't even *need* to file a tax return? That is what we are aiming for.

Everyone, including Jack or Jill, needs to fill out a Form W-4 when they start a new job. This tells the employer how much tax to withhold from each paycheck. Well, if Jack or Jill meets the following two requirements, they don't have to have any Federal withholding:

·They had no tax liability and got back any and all withholding for the prior year, AND

· They expect a refund of any and all withholding in the current year. (Generally if a dependent child has earned income of over $6,100 they MUST file a return and *may* have a tax liability.)

All they need to do to prevent Federal withholding at their job, if they meet the two conditions listed above, is to write “Exempt” on line 7 of the Federal Form W-4.

Wisconsin (and other states) follow similar rules. If Jack or Jill did not have a Wisconsin income tax liability the prior year and they do not expect to have one in the current year, they can write “Exempt” on line 3 of Form WT-4. This should again prevent the employer from withholding Wisconsin income taxes. I do recommend filing BOTH the W-4 and the WT-4 with “Exempt” on the proper line to prevent any withholding.

As with all things, there are exceptions. If Jack or Jill has unearned income (such as interest, dividends, stock or mutual funds sales, etc.) of more than $350 they may need to file a return.

It is always a good idea for Jack or Jill (or Mom or Dad) to look at the first paycheck, give Jack or Jill a pat on the back, and make sure that there is no Federal or Wisconsin withholding.

If this process is followed for any part-time job that your son or daughter has, they may be able to avoid an otherwise unnecessary income tax return filing.

Tips for Traveling Abroad

Check with the U.S. State Department for travel alerts and warnings. You might also consider registering with the U.S. government's Smart Traveler Enrollment Program (STEP), at https://step.state.gov/step/. STEP assists U.S. citizens traveling and living abroad.

For many people, there's perhaps nothing more exciting than traveling to a new country, experiencing different cultures, tasting exotic foods, and exploring unfamiliar landscapes. But before you take off on an international adventure, consider that a little preparation and a few precautions can help prevent a lot of unexpected headaches.

Obtain and copy necessary documentation

Most U.S. citizens need a valid U.S. passport for international travel. Although some countries allow you to enter with just a birth certificate and driver's license, all people traveling abroad by air must have a valid passport to reenter the United States. Those traveling by land or sea must have proof of both their U.S. citizenship and identity; in many of these cases, the new U.S. passport card will suffice. You do not need a passport to travel to or from a U.S. territory (e.g., U.S. Virgin Islands or Puerto Rico).

It can take up to six weeks to receive a passport, so plan accordingly. Expedited options are available for additional fees. Also note that some countries will not accept a passport that expires within six months of your trip. Contact the embassy of your destination country for more information.

Finally, be sure to make copies of your passport, itinerary, airline tickets, and other important documents. Leave one set with a friend or relative at home and carry the other set with you, separately from the originals.

Plan ahead to stay healthy

Some countries require inoculations and other medical preparations before entering. You can research your destination at www.travel.state.gov. In addition, U.S. Centers for Disease Control offers information about your destination's medical requirements at www.cdc.gov/travel/.

Many health insurance companies do not cover policyholders while they are in a foreign country. Even if you and your family are covered, you may not receive the same benefits overseas. Contact your insurer's customer service department to find out if you have coverage while traveling abroad, and if any restrictions apply. If needed, you can typically purchase short-term supplemental health coverage from an insurance company, travel agent, tour operator, or cruise line. These policies are often combined with medical evacuation coverage, which helps defray the costs of an emergency medical trip back home.

If you take prescription medication, bring at least enough to last your entire trip. Carry medications in their original, labeled containers and pack them in your carry-on luggage. Ask your pharmacist for the generic name of your medications in case you need more while abroad, and ask your doctor to write a letter explaining your need for the medications. Some countries restrict the types of medications allowed into the country without medical documentation.

Finally, review the options for health care at your destination before you arrive. It's best to prepare for an unpleasant surprise rather than have to search for a doctor at the moment you need one.

Avoid costly mistakes

Planning to use your mobile phone? Contact your carrier and review your plan for international roaming. Calling, texting, and posting updates to your social media sites can be extremely expensive if you don't plan ahead.

Similarly, ask your credit or debit card bank about foreign transaction fees. Since many do not charge these fees, it may pay to shop around. Also, inform your card companies that you will be traveling so that they won't suspend your card for suspicious activity while you're away, and can provide a toll-free number should you need to contact them.

If you plan to use cash or traveler's checks, keep some on your person and some in a separate safe location. Also, before deciding to use traveler's checks, be sure to confirm they are readily accepted. And remember to check exchange rates so you can accurately calculate your vacation budget.

Consider travel/baggage insurance

In addition to supplemental health insurance coverage, you may want to consider purchasing travel insurance, particularly if the peace of mind outweighs the premium cost. Some types of policies protect you in case the trip is cancelled or interrupted due to certain events, such as weather, illness, or death of a loved one. Investigate whether your credit card or travel club offers this type of coverage as well.

Although most airlines will reimburse passengers for luggage lost during transit (up to certain limits), you might also want to consider baggage insurance for protection when your bags are not in possession of the airline.

These are just a few tips to consider before traveling overseas. For more comprehensive information, visit the U.S. State Department website at www.travel.state.gov.

What's New in the World of Higher Education?

The appeal of MOOCs

The combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs--which stands for "massive open online courses"--will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

Whether your son or daughter is expecting college decisions any day now or whether you're planning ahead for future years, here's what's new in the world of higher education.

Costs for 2013/2014

Question: What goes up every year no matter what the economy at large is doing? Answer: The cost of college. The reasons are many and varied, but suffice it to say that this year, like every year, college costs increased yet again.

For the 2013/2014 year, the average cost at a 4-year public college is $22,826, while the average cost at a private college is $44,750, though many private colleges charge over $60,000 per year (Source: The College Board, Trends in College Pricing 2013). Cost figures include tuition, fees, room and board, books, and a sum for transportation and personal expenses.

What's a parent to do? For starters, check out net price calculators. Now required on all college websites, net price calculators can help families estimate how much grant aid a student might be eligible for at a particular college based on his or her individual academic and financial profile and the school's own criteria for awarding institutional aid. You'll definitely want to spend some time running numbers on different net price calculators to see how schools stack up against one another on the generosity scale.

New rates on federal student loans

Last summer, new legislation changed the way interest rates are set for federal Stafford and PLUS Loans. Rates are now tied to the 10-year Treasury note, instead of being artificially set by Congress. For the current academic year (July 1, 2013, through June 30, 2014), the rates are:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan.

A renewed focus on IBR

Federal student loans are the preferred way to borrow for college because they offer a unique repayment option called "income based repayment," or IBR. Under IBR, a borrower's monthly student loan payment is based on income and family size and is equal to 10% of discretionary income. After 20 years of on-time payments, all remaining debt is generally forgiven (loans are forgiven after 10 years for those in qualified public service).

Enrollment in the program has been relatively modest, but last fall, the Department of Education contacted borrowers who were having difficulty repaying their student loans to let them know about IBR. The department also put the IBR application online and has made it possible for applicants to import information from their tax returns.

A government push for information

Last summer, as part of his push to make college more affordable, President Obama announced a proposal that would require colleges to report the average debt load and earnings of graduates (in addition to the information on tuition costs and graduation rates that they already report), with the availability of federal financial aid being linked to those ratings. In response, most colleges have cried foul, claiming that average debt is not a valid indicator of affordability because colleges have vastly different endowments and abilities to award institutional aid, and that post-graduation salaries can depend on variables outside of a college's control. No reporting requirement has been finalized yet, but the trend is clearly toward the government requiring colleges to make their costs and return on investment as transparent as possible so families can make more informed choices.

The growth of MOOCs

You may have heard the term "MOOCs," and going forward, it's likely you'll hear it a lot more. MOOCs stands for "massive open online courses," and these large-scale, online classes have the potential to revolutionize higher education. One of the earliest MOOCs was a course on artificial intelligence at Stanford University in 2011, which attracted 160,000 students from all over the world (though only 23,000 successfully completed the course, earning a certificate of recognition).

Today, hundreds of MOOCs are offered free of charge by many well-known, leading universities. The piece of the puzzle that has yet to be solved is what credit or degree will be given when courses are completed and how pricing will work. But the combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

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What is a college net price calculator?

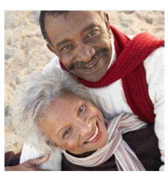
A college net price calculator--now required by the federal government on all college websites--is an online calculator that attempts to give families an estimate of how much grant aid a student might expect at a particular college based on that student's financial and academic profile and the college's specific criteria for awarding grant aid. The cost of attendance at a college minus grant aid equals the net price, hence the name "net price calculator."

The idea behind net price calculators is to give students and their parents a more accurate picture earlier in their college search of what they will likely need to pay at a specific college instead of forcing them to rely on the college's published sticker price. The key word here is "likely." The figures quoted by a net price calculator are simply estimates; they are *not* guarantees of aid, and colleges go out of their way to spell this out. Nevertheless, running the numbers on one is an excellent way to get an early estimate of what a student's net price might be at a particular college.

So how do colleges estimate how much grant aid a student might get? It varies. Each college has a different formula for determining how much institutional grant aid it distributes; thus, no two net price calculators are identical. For example, you might enter identical financial and family information on two separate net price calculators and come out with a net price of $20,000 per year at College A and $35,000 per year at College B.

A typical net price calculator will ask for parent income and assets, student income and assets, and number of children in the family, including how many will be in college at the same time as the student in question (tip: the more children in college at the same time, the lower the net price!). It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, the year the family home was purchased, and how much parents expect to pay in out-of-pocket health-care costs in the coming year.

A typical net price calculator should take about 10 to 15 minutes to complete. These calculators might show up in very different places on college websites, so be prepared to search around for them.



Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.