Financial Phonics®

Standard Mileage Rates

Employee / Business
$0.54 - 2016
$0.575 - 2015

Medical / Moving
$0.19 - 2016
$0.23 - 2015

Charity/volunteer $0.14

Show me the return ON my Money!

More regulations are coming down onto the financial brokerage firms under the assumption that the public's interests will be protected. ***No amount of regulation can protect you if you don't understand the financial terminology!***

When a financial advisor promises a certain "return on your investment", you need to know exactly what is meant. The phrase sounds positive, but ***what if the return is your own money, and not all of it is coming back to you?*** It could be called "***cash flow***", but ***where is the cash flowing and whose cash is it?***

Everyone wants a guarantee. There are ***no guarantees unless you have purchased insurance***. That's what FDIC insured savings accounts offer. Your own money can be returned at any time with a very little rate of return in interest income. The banks have to pay for that insurance to the Federal Deposit Insurance Corporation, and therefore, there is very little left from which to pay you interest.

Other insured investments are annuities and whole life insurance policies where a certain "return" is guaranteed. But be very cautious if the return being promised is much more than bank account interest rates. You could be misled by the terminology!

If an annuity promises an annual cash flow of 7%, that is NOT what you EARN on the annuity; instead, that is how much you can take out from the annuity, a mere 7% of your total investment, otherwise you are subject to early withdrawal charges. Your actual return (earnings) on your annuity investment may only be 1%.

If you can make more than your local bank is offering you on a savings account, there is a risk the return promised might not actually happen.

When you go ***beyond insured investments, you need to know that you are at risk of losing your whole investment.*** That's why Chartered Financial Analysts recommend that you invest in mutual funds (to spread the risks of losing over many stocks, instead of one or a few stocks), until you have $350,000 or more to invest in individual stocks.

If you want to invest in individual stocks, ask your broker/advisor how he or she keeps up with the constant changes in the markets. Ask what you are risking, and what you could gain or lose. Are you comfortable in your understanding of the answer?

What you really want is a ***return OF your own money PLUS an additional return ON your money.*** Find out how that can happen for you before you agree to make an investment.

Understanding is far more important than hearing impressive financial terminology from your broker/advisor.

As Warren Buffet has said for years, "Don't invest in something you don't understand." ***Keep asking questions until you do understand.*** Otherwise, save yourself the worry and don't invest into what you don't understand.

Education Benefits

Taxpayers cannot claim the American Opportunity Credit or the tuition deduction if they do not receive a ***properly completed Form 1098-T*** from the school. Make sure the form has the social security number of the student!

The ***American Opportunity Credit has now been made permanent: a $2,500 maximum credit per year*** for each of four years of post-secondary school education. The credit is phased out for married, filing jointly, tax returns from $160,000 to $180,000 of adjusted gross income.

Teachers can continue to deduct $250 per year for supplies they purchase personally for their kindergarten through 12th grade classes. The amount will be ***indexed for inflation each year going forward***, perhaps as much as $257 for 2016. Any amounts spent beyond that can be itemized as employee business expenses but those are actually only deductible if you both itemize and have more than 2% of your adjusted gross income spent in such expenses.

The ***tuition deduction of up to $4,000 will continue through to December 31, 2016***. This deduction works better than the American Opportunity Credit for a ***small number of people who are in the 25% tax bracket*** (approximately between $75,000 and $117,000 of taxable income) on a married filing jointly tax return.

Wisconsin's annual deduction for contributing to a "College Savings Account" (EdVest or Tomorrow's Scholar) has increased to ***$3,100*** per individual beneficiary for 2015 and ***you have until April 15, 2016 to contribute for 2015*** and take a 2015 deduction from income on your Wisconsin income tax return.

If you contributed more than $3,100, you can carryforward the excess to a future year for the annual deduction.

There are no limitations on your taxable income in order to take advantage of this College Savings Account deduction. However, Wisconsin passed some new rules on distributions from those College Savings Accounts, effective 1/1/2015: Any distribution from an account must be added to income if the amount withdrawn was previously subtracted and contributed within 365 days. This calculation is done on a first-in/first-out basis.

Rather than have parents or grandparents contribute, and the student takes it out immediately for educational expenses, you need to leave the money in the account for at least a year before the student makes the withdrawal. ***So plan ahead an extra year in order to continue taking advantage of this Wisconsin tax return deduction***.

Wisconsin also has a deduction for private school tuition for kindergarten through high school. There are no limitations on adjusted gross income to qualify for the private school tuition deduction of up to $4,000 for kindergarten through 8th grade, and up to $10,000 for high school tuition paid to a qualified private or religious based educational institution.

Wisconsin Tax Refund Verification

Remember to immediately respond to the letter from the Wisconsin Department of Revenue asking you to prove your identity to receive your Wisconsin refund! If you have any questions about the legitimacy of the letter, just give us a call, especially if you receive such a letter BEFORE you've filed your tax returns!

Phishing!

The IRS or the Wisconsin Department of Revenue will NEVER email you or telephone you as a first contact about an issue with your tax returns or your identity! They will always use the US Postal Service to first contact you!

Calls and emails are attempts to get information out of you. "Phishing" works for the crooks if you respond. Just delete the emails and say, "wrong number" to calls and hang up; don't answer questions for crooks!

Proof of Health Insurance

Everyone who has health insurance coverage will receive a ***Form 1095 proving that health insurance coverage exists***. You may not receive that Form 1095 until April. We will need the information from that form to prepare your tax return.

Most importantly, we need to know if you are covered by health insurance, and what you paid "after tax" for health insurance coverage in Wisconsin. Wisconsin allows a deduction for your health insurance costs if you can't deduct it on the front of your Federal income tax return.

Online Newsletter

PLEASE check out our Poppy CPA blog site on the WordPress servers for changes throughout the year:

http://poppycpa.wordpress.com/

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