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How Did Americans Spend Their Tax Refunds in 2015?

The average tax refund for 2015 was \$2,800. What did Americans do with their money?

34% Pay down debt

33% Save it

26% Use it for everyday expenses

3% Take a vacation

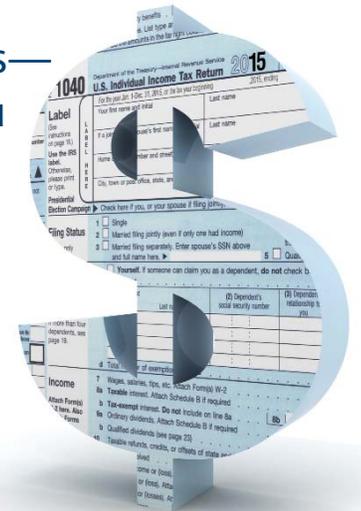
Source: USA Today



Take Advantage of the Tax Breaks—Old and New—That Apply to You

Ben Franklin once commented that the only certainties in this world are death and taxes. Today, we've come to realize that a third item should be added to the list: changes in the tax code. 2015 was no different. However, instead of engaging in shilly-shallying, Congress actually made some tax cuts permanent, and it improved a few others.¹ The tax law changes passed by the government include:

- **An updated tax break for commuters who use mass transit:** During 2016, anyone who uses mass transit to get to work can spend up to \$255 of pre-tax salary each month on the expense—the same amount employees who drive to work can spend on parking.¹
- **The American Opportunity College Credit:** If you have a child in college, the \$2,500 tax credit can be claimed for expenses like higher education tuition, qualifying fees, and course materials. Taxpayers with modified adjusted gross incomes below \$180,000 for joint filers (\$90,000 for single filers) may be able to claim a full or partial credit.²
- **Tax deduction for teachers:** Elementary and high school teachers may, once again, be able to deduct up to \$250 a year for money spent on classroom supplies. The change is retroactive for 2015, and is now a 'permanent' part of the tax code (which means it's available until the tax code is changed).¹
- **Charitable contributions using required minimum distributions (RMDs):** In general, Americans who are age 70 ½ or older are required to take RMDs from traditional IRAs and pay any taxes owed. Rules passed by Congress allow up to \$100,000 of a traditional IRA to be donated to charity, tax-free, and fulfill the RMD requirement.³



As we progress through tax season, you may want to become familiar with all of the tax changes passed by Congress, and make pre-contributions to a traditional IRA or after-tax contributions to a Roth IRA. If so, give us a call. We're happy to help. ■

None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

¹ Kiplinger.com, *12 Valuable Tax Breaks Congress Has Brought Back to Life*, December 2015.

² IRS.gov, *American Opportunity Tax Credit: Questions and Answers*, Page updated August 24, 2015.

³ Brandon, Emily. *How to Avoid Taxes on IRA Withdrawals*, U.S. News, Jan. 8, 2016.



Get Your Share of Financial Aid

The U.S. Department of Education provides more student financial aid than any other organization in the country. Each year, through the office of Federal Student Aid, it

distributes about \$150 billion in federal grants, loans, and work-study funds to more than 13 million students.⁴ For college students to receive aid, they must complete a free application for Federal Student Aid (FAFSA), which involves several steps and can take a few hours.

1. First, applicants must get an FSA ID (a username and password). Visit studentaid.ed.gov/sa to start the process.⁴
2. Next, they should gather the documents needed to apply. These include:
 - Applicant's Social Security number
 - Parents' Social Security numbers
 - Driver's license number (if applicable)
 - Alien registration number (if applicable)
 - Federal tax information or tax returns for yourself and your parents
 - Records of untaxed income, like child support

- Information on your parents' cash and savings and your own

3. Once you have the information, you can complete and submit your FAFSA.
4. Once you have submitted your FAFSA, you'll receive a Student Aid Report (SAR), which summarizes your FAFSA. Review it and make any corrections needed.⁴

Any aid provided by the Department of Education can help supplement any savings you've set aside in a 529 college savings plan. If you want to discuss college funding, give us a call. ■

Three Tips for Maximizing Your Aid

1. **File early.** Some schools award money on a first-come, first-served basis.⁵
2. **Don't leave blanks.** If something doesn't apply to you, enter a zero.⁶
3. **Put student assets that are earmarked for college in a 529 Plan.** FAFSA formulas assume students should spend 20% of their assets on college, while parents should spend 5.64% of their assets. In general, a 529 college savings plan is considered an asset of the parent. If the 529 plan account is owned by a grandparent, or another relative, it is not included on FAFSA.⁷

⁴ Federal Student Aid website, Jan. 27, 2016.

⁵ Couch, Christina. *Make the most of your FAFSA application*, Bankrate.com, Feb 3, 2016.

⁶ SavingforCollege.com, *Does a 529 plan affect financial aid?*, Feb. 1, 2015.

⁷ Courseadvisor.com, *Common mistakes to avoid when completing the FAFSA*, Feb. 3, 2016.