PPC Monthly Newsletter

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It's April...Flowers or Taxes?

The old adage tells us, "April showers bring May flowers." April is starting to generate its share of rain, so I would guess that the flowers will be drinking in all of the moisture as they continue to sprout from their wintertime beds.

This time of year, people who love to plan and work in their gardens start to gather everything they'll need once whatever day they have targeted as the "official start of planting season" finally arrives. As I take long walks around the neighborhood, or visit the various botanical gardens around Chicagoland, I am impressed with the level of talent, dedication and beauty that so many people can create in their gardens. They literally have the capabilities of creating stunning works of art from some of nature's most beautiful gifts.

April is also tax month in the United States. Some people love this time because they expect to receive a large refund that can be saved, used to pay bills, or set aside for some special project or trip. Others dread this month because they know they will have to write a check to Uncle Sam. Hopefully, those people have set aside the funds that will be needed to make writing that check less of a burden. Still others will neither owe taxes nor receive a refund, but might be stressed over all of the data they need to gather in order to file their return. Those that use a CPA to do their taxes are hopeful that the tax advisor will discover tax savings they had not previously known about.

Which person are you? If you're the gardener who can't wait to dig your shovel into the earth, then we wish you a bountiful year of flowers and vegetables. If you are the person focused on taxes and can't wait until the 15th has passed, we wish you a tax season of limited to no stress. Once tax season is over, you can start to really focus on summer vacation plans, visits with family, sunning by the pool or beach, and all of the other seasonal adventures that quickly make you forget the cold and snow of January and February. In that regard, we wish you nothing but fun with your spouse, significant other, children, grandchildren and friends!

Financial guidance always includes an element of tax planning. There are methods to defer taxes, collect tax-free income, receive tax favored income, and special programs to help offset taxes. Each of these can represent yet another financial tool to consider as part of your overall financial planning.

If you often find yourself thinking about taxes (instead of flowers), then we should plan to meet and discuss these options and see if there are ways to make things less stressful in that regard. We always enjoy meeting with clients and friends, and hope to see you over the warm months ahead.

- Ken, Dave, Dominic, Todd, Julie, Therese and Maja

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Preferred Planning Concepts
Comprehensive Financial Services
For Individuals, Professionals and Businesses

When Your Child Asks for a Loan, Should You Say Yes?

Perhaps you have plenty of money to lend, and you're not earning much on it right now, so when your child asks for a loan, you think, "Why not?" But even if it seems to be the right thing to do, look closely at potential consequences before saying yes.

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money?

Lenders ask applicants to clearly state the purpose for the loan, and you should, too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run?

It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it?

Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong?

One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?

If you decide to say yes

Think like a lender

Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules

Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, and loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help

Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty

If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.

How Does Your 529 Plan Stack Up Against the Competition?

Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether.

If you're one of the millions of parents or grandparents who've invested money in a 529 plan, now may be a good time to see how your plan stacks up against the competition. Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether. You can research 529 plans at the College Savings Plans Network website at collegesavings.org. If you discover that your 529 plan's performance has been sub-par, what options do you have?

Roll over funds to a new 529 plan

One option is to do a "same beneficiary rollover" to a different 529 plan. Under federal law, you can roll over the funds in your existing 529 plan to a different 529 plan (college savings plan or prepaid tuition plan) once every 12 months without having to change the beneficiary and without triggering a federal penalty.

Once you decide on a new 529 plan, the rollover process is fairly straightforward. Call your existing 529 plan to see what steps are required; some plans may impose a fee for a rollover, so make sure to ask. Then call your new 529 plan and establish an account; your new plan should have a process in place to accept rollover funds. You must complete the rollover to the new 529 plan within 60 days of receiving a distribution from your former 529 plan to avoid paying a penalty.

If you want to roll over the funds in your existing 529 plan to a new 529 plan more than once in a 12-month period, you'll need to change the designated beneficiary to another qualifying family member to avoid paying a federal penalty. As a workaround, you can change the new beneficiary back to the original beneficiary later.

Change your investment strategy in your current 529 plan

Just because you can switch to a new 529 plan doesn't necessarily mean you should. If the new 529 plan you're considering has roughly the same mix of investment choices and similar fees as your current plan, you might ask yourself whether you'd be better off staying put and simply changing your current investment allocations. This is especially true if you have invested in your own state's 529 plan and the availability of related state tax benefits is contingent on you remaining in your state's plan.

When changing your investment options, it's important to distinguish between your existing contributions and your future contributions. Most 529 college savings plans let you change the investment options for your future contributions at any time. So, for example, if you originally picked a more aggressive investment option, you can choose a different one (or more than one) for your future contributions.

The rules are stricter when it comes to your existing contributions. If you're unhappy with the investment performance of your current investment choices but don't want to switch plans completely (using the rollover option described earlier), 529 college savings plans are federally authorized (but not required) to let you change the investment options for your existing contributions twice per calendar year (prior to 2015, the rule was only once per year). Check to see whether your 529 plan offers this flexibility.

Choose other savings options that give you more investment control

If your 529 plan investment returns have been lackluster, you might wonder whether you should continue putting money into your account. Although many 529 plans offer a range of investment options that you can pick from, you might decide that you'd like more control over your college investments. In that case, you might consider using an entirely different sayings option, such as a Coverdell education savings account, a custodial account, or an IRA, all of which let you choose your underlying investments.

As you evaluate your options, keep in mind that any college investment strategy should be reexamined periodically in light of new laws and changes in your individual circumstances.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

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I owe a large amount of money to the IRS. Can I pay what I owe in installments?

Unfortunately, not everyone gets a refund during tax season. If you are in the unenviable position of owing a large amount of money to the IRS, you may be able to pay what you owe through an installment agreement with the IRS.

With an installment agreement, the amount of your payment will be based on how much you owe in unpaid taxes and your ability to pay that amount within the agreement's time frame. Although you are generally allowed up to 72 months to pay, your plan may be for a shorter length of time.

To request an installment agreement, fill out Form 9465, Installment Agreement Request, and attach it to your tax return, or mail it by itself directly to your designated Internal Revenue Service Center. If your balance due is not more than $50,000, you can apply for an installment agreement online at IRS.gov.

The IRS will generally let you know within 30 days after receiving your request whether it is approved or denied (if you apply online, you'll get immediate notification of approval). If the request is approved, the IRS will send you a notice detailing the terms of your agreement. You will also be required to pay a fee of $120 ($52 if you make your payments by direct debit). You can make your payments by check, money order, credit card, payroll deduction, or direct debit from your bank account.

Keep in mind that even if your request for an installment agreement is granted, you will still be charged interest and may be charged a late-payment penalty on any tax not paid by its due date. This interest and any applicable penalties will be charged until the balance you owe to the IRS is paid in full.

It is important to realize that the fees and interest charged by the IRS for an installment agreement can add up. As a result, before you enter into an installment agreement, the IRS suggests that you consider other alternatives, such as getting a bank loan or using available credit on a credit card.

Will I have to pay a penalty tax if I don't have qualifying health insurance?

It depends. One of the main objectives of the health-care reform law, the Patient Protection and Affordable Care Act (ACA), is to encourage uninsured individuals to obtain health-care coverage. As a result of the ACA, everyone must have qualifying health insurance coverage, qualify for an exemption, or pay a penalty tax. This requirement is generally referred to as the individual insurance or individual shared responsibility mandate.

Health insurance plans that meet the requirements of the ACA generally include employer-sponsored health plans, government health plans, and health insurance purchased through state-based or federal health insurance exchange marketplaces.

Individuals who are exempt from the individual insurance mandate include:

- Those who qualify for religious exemptions
- Certain noncitizens
- Incarcerated individuals
- Members of federally recognized American Indian tribes
- Those who qualify for a hardship exemption

Individuals may also qualify for an exemption if:

- They are uninsured for less than three months
- The lowest-priced insurance coverage available to them would cost more than 8% of their income
- They are not required to file an income tax return because their income is below a specified threshold

For tax year 2014, the penalty tax equals the greater of 1% of the amount of your household income that exceeds a specific amount (generally, the standard deduction plus personal exemption amounts you're entitled to for the year) or $95 per uninsured adult (half that for uninsured family members under age 18), with a maximum household penalty of $285. In 2015, the percentage rate increases to 2%, the dollar amount per uninsured adult increases to $325, and the maximum household penalty increases to $975.

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