00:00:06:05 - 00:00:25:07

Speaker 1

Hello, everyone, and welcome back to another episode of Share the Wealth.

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Speaker 2

We hope that you were able to tune in for our previous episode, Spring Forward with your Financial Wellness. During that episode, we discussed a few items that would help you clean up your finances. And along with Spring, of course, comes the end of tax season.

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Speaker 1

Yeah, how great is that?

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Speaker 1

So in one of our previous episodes that Lyndsey had mentioned, one thing that we talked about was achieving that break even status with your tax return. So in this episode today, we're really going to get into the details on how you can achieve this status. But before we do that, Lyndsey, why don't you read our disclaimer.

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Speaker 2

This episode is being recorded on April 12, 2024.

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Speaker 2

The contents of this podcast are strictly for informational purposes only and nothing said should be taken as investment, tax or legal advice. It is important to discuss your situation with a professional before making any financial decisions, as the strategies discussed may not be suitable for you specifically.

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Speaker 1

So to reiterate, what is breaking even and why is it important?

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Speaker 2

Breaking even means being close to zero come tax time. Whether that's not owing a lot or not getting a huge refund back because why give the government an interest free loan.

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Speaker 1

So let's begin by talking about breaking.

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Speaker 1

Even as I mentioned, you're not getting that large refund, but you're also not owing a lot of taxes either or no taxes at all. Isn't this great? Another option that you have is getting that larger refund by putting more away throughout the year. You can do this in a couple of different ways that we'll discuss in a little bit.

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Speaker 1

Some people choose this option because they might want to go on a vacation, spruce up their home, invest a little bit more into their accounts, a ton of different options. While another alternative might be not paying taxes throughout the year, as I mentioned. And then waiting until tax time comes to get that larger bill. However, there will be consequences with this, such as penalties that you'll have to pay.

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Speaker 2

Now this may also depend on your current financial status.

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Speaker 2

For a single income household, you may want to receive as much as possible throughout the year to build up your emergency savings. However, maybe you're a dual income household and you're planning to use that refund as fun money to go towards a vacation with your kids or maybe even sprucing up the house with new home improvements. No matter what your preference is, We always like to plan for that break even status limit to keep penalties out of the way and as much in your hands throughout the year.

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Speaker 2

So let's get into a few strategies that will help you achieve your breakeven status. Number one would be staying organized. Good record keeping is the foundation of effective tax planning.

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Speaker 2

You want to make sure that you keep track of all of your statements, bank statements, all tax forms you submit during tax time in order to ensure that you are eligible for all deductions and credits. But also it makes tax filing that much smoother.

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Speaker 1

Yeah, I would definitely agree. And the second one that we have is to take a look at your withholdings now that we're over through tax season, it's a great time to look at your paystubs and adjust that withholding.

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Speaker 1

You can do this by consulting with your employer or a financial advisor to do a tax projection. This may be helpful if you have multiple jobs or you work in multiple states.

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Speaker 1

So another strategy that you can take is actually contributing to a traditional IRA. These contributions are pretax, so you'll be taxed at the time that you're putting it into the account. Currently, the contribution limits are if you're under 50 years old, you can contribute $7,000 in 2024.

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Speaker 1

If you're over 50 years old, there's actually a catch-up contribution of $1,000, bringing your total contribution to $8,000 for 2024.

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Speaker 1

An important thing to keep in mind with your traditional IRA contributions is that there is a phaseout range for the deductions that you can take, however, not for the contribution. So you're able to make that maximum contribution that I mentioned before. But the deduction might be limited based on your modified adjusted gross income. So what exactly are those limits?

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Speaker 1

So for single taxpayers that are covered by a workplace retirement plan, if you make less than $77,000, you're able to take the full deduction. If you're in between $77,000 and $87,000 for 2024 it maybe adjusted based on what your income was. If you're over that $87,000, there will be no deduction. If you're married filing jointly, this is significantly more about $123,000 is where you'll begin to phase out.

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Speaker 1

If you're over the $143,000 there's no deduction at all. But if you're not covered by a workplace retirement plan, the full amount is tax deductible.

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Speaker 1

So you might have noticed that we haven't mentioned contributing to a Roth IRA. And the reason for that is because there is no tax deduction when you make the contributions. However, it's always a great option to contribute to that after tax bucket of money. So there are income limitations on making the Roth contributions as well. If you're single or head of household and you have less than $146,000 and modified adjusted gross income, you're able to contribute the max.

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Speaker 1

However, if you're in between the $146,000 and $161,000, your contribution might be limited. If you're over $161,000, you cannot make a contribution. If you're married filing jointly, the contribution limit is $230,000 of modified adjusted gross income. If you're less than that, you're able to make the full contribution. If you're between the $230,000 and $240,000, you might have a little bit of a limitation.

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Speaker 1

If you're over that $240,000, you're not able to make the contribution. However, Lyndsey is going to get into another alternative that you could take.

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Speaker 2

If you do find yourself close to that phaseout range, it's good to consult with your financial advisor to see when it is appropriate to make those contributions. For example, if you are close to the phaseout range, especially with your Roth, it's good to wait until tax time to know what your maximum limits you can contribute. From there, you can establish what's called a backdoor Roth. And for those with higher incomes who exceed the phase out limits, you can convert your traditional IRA to a Roth IRA.

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Speaker 2

However, you will owe taxes on the funds that remain in the transfer.

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Speaker 1

Another strategy that you can take is by making QCD’s, which is a qualifying charitable distribution. These are directly from your IRA and are made when you reach age 70 and a half.

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Speaker 1

Work with your financial advisor or tax advisor to help maximize this status. Since there are limits per person. Currently in 2024, the maximum that you can make is $105,000.

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Speaker 1

Another strategy that you can take is by contributing to your employer plan such as 401k. So what are the limits for this year?

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Speaker 1

In 2024 you can contribute the max of $23,000 if you're under age 50. If you're over 50, there's a catch-up contribution of $7,500. Definitely take advantage of this if you're able to.

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Speaker 1

Another strategy that you can take is by making HSA contributions, which is a health savings account. This is usually typically offered when you have a high deductible health insurance plan. These contributions are tax deductible as long as they're used for qualified medical expenses.

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Speaker 1

Another option that you have is called tax loss harvesting. And you do this by taking a look at your portfolio towards the end of the year and seeing what investment income you might have that is causing some losses. You're able to take a loss deduction of $3,000 on your tax return and you're able to use the carryforwards in the New Year.

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Speaker 1

And this might help offset any tax liability that you might have.

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Speaker 2

And remember to make some of your estimated payments throughout the year if necessary, if you're looking to avoid any further penalties. For example, if you're self-employed and you have no federal or state withholding throughout the year, you're going to owe during tax time. So making those estimates are a good thing to have. As well as if you're a recently retired and coming off from having withholding from your W-2, it's good to make those estimated payments as you may be having income in other places, such as investment income and other types of income throughout the year.

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Speaker 1

And our final tip is in regards to education savings. If you're planning to save for your children or your grandchildren's education, this is a great way to do so and also get a tax deduction. Now, the deduction is for any benefit that you might receive from your state, and these vary depending on which state you're in. So make sure you look up what the deductions are. These contributions must be made by the end of the year in order to receive the deduction.

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Speaker 1

Now that you have these strategies to reach your breakeven status that we mentioned, begin working with your financial advisor or tax advisor throughout the year to reach this financial goal.

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Speaker 2

We hope you enjoyed this episode and stay tuned for more. And as always, don't forget to

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Speaker 1 and Speaker 2

Share the Wealth!

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