

RETIREMENT 101: AS TAX DEADLINE APPROACHES, MAKE SURE YOU KNOW ALL YOUR RETIREMENT CONTRIBUTION OPTIONS

You have until April 17 to make your contributions to a traditional IRA, Roth IRA, SEP-IRA and Keogh plans. A SIMPLE IRA has two separate deadlines: January 31 for salary reduction contributions, and April 17 for employer contributions. Here's a look at contribution limits and other key information you should consider by tax deadline:

Start with some advice. A financial planner or a tax professional might be worth contacting to see how your overall retirement strategies are going, including the amounts and balance of investments you have in your 401(k) plan and traditional pension at work. To find a financial planner in your area, go to www.PlannerSearch.org.

Turn your tax refund into savings. For the first time, taxpayers can arrange to have their tax refunds deposited in up to three accounts, including an IRA, a health savings account or an education savings account. (See IRS Form 8888). But make sure if you want to claim the contribution on your 2006 tax returns that you get your tax returns completed at least two to three weeks early so you can direct an e-filed direct deposit into those accounts by April 17. Otherwise, any deposit that shows up after that date will be counted as a 2007 tax year contribution. Also, the IRS occasionally adjusts refunds based on filing errors or other circumstances, so doublecheck your figures so the money goes where you want. And, of course, be sure to notify your financial institution about the pending contribution so that it is properly coded on their end.

Know your contribution, income limits. As stated, you have until April 17 to make your 2006 tax year contribution to various retirement options. If you were under the age of 50 during all of 2006, your contribution limit to a 401(k) plan was \$15,000; if you turned 50 by December 31, 2006, the contribution amount was \$20,000 (contribution deadlines depend on your plan's structure). For 2007, the limit has been increased by \$500, respectively. For IRAs, taxpayers under the age of 50 by December 31, 2006 can contribute up to \$4,000 by the tax deadline. Those over age 50 by the end of 2006 can contribute an extra \$1,000. The 2006 Pension Protection Act indexed the income limits (or phase-out limits) to inflation. In 2007, single filers can deposit to a Roth IRA if their income is between \$99,000 to \$114,000, a \$4,000 increase; and joint filers can earn between \$156,000 to \$166,000, a \$6,000 increase in income from 2006 levels.

Be aware of new 401(k) transfer rules. Thanks to new pension law, a child or other non-spouse beneficiary who inherits the money in a qualified plan can rollover their benefit directly into an IRA and the new account would be treated as an inherited or beneficial IRA which could stretch out the distributions over a number of years at a considerably smaller tax bite. The Pension Protection Act of 2006 also allows direct rollovers from pensions to Roth IRAs which provide additional planning opportunities.

Know new retirement savings benefits for military personnel. Military service counts toward vesting for all civilian retirement plans. Thanks to the Heroes Earned Retirement Opportunities (HERO) Act enacted last May, military and their families can actually put more money into their traditional or Roth IRA accounts. The act allows tax-free combat pay to be considered as earned income for determining the contribution amount for traditional and Roth IRAs. Before, a military person who earned only combat pay wasn't allowed to contribute to either form of IRA. This change is retroactive to 2004 and affected military personnel have until May 28, 2009 to make their contribution. Amended returns may need to be filed.

The Saver's Credit was made permanent. This credit is a non-refundable credit for those who contribute to an employer-sponsored retirement plan or an IRA and meet certain income limits.

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WHEN DOING YOUR OWN TAXES MAKES SENSE...AND WHEN IT DOESN'T

Tax deadline is April 17, so if you haven't begun gathering your annual tax records it's time to do so. Every year, however, people's lives change – they buy and sell houses and move, they take new jobs, have kids, buy and sell stock. Those and dozens more reasons might give you cause to hire a tax preparer.

It's worth going over the primary reasons why some people should get help with their taxes and others can continue going it alone.

Doing it yourself. If you meet the following circumstances, you can probably do your taxes by yourself:

- You work for only one employer who gives you a W-2 tax form each year.
- You earned less than \$1,500 in taxable interest in 2006.
- You rent your residence and don't own a home or vacation property.
- You don't have kids or other dependents.
- You don't have any complex investments such as a partnership, a trust or extensive stock holdings.
- You really like numbers, are willing to investigate annual changes to the tax code and doublecheck your work.
- You're comfortable doing computations by calculator or by hand or by using tax software on your computer or online.

For do-it-yourselfers with computers, the Internal Revenue Service's FreeFile program (www.irs.gov/efile/article/0,,id=118986,00.html) is aimed at some 95 million taxpayers with an Adjusted Gross Income (AGI) of \$52,000 or less in 2006 to prepare and e-file their federal tax returns for free. E-file, the IRS's online tax filing service, is available to both tax professionals and individuals with compatible home computer tax software. For more e-File information, go to www.irs.gov/efile/article/0,,id=98294,00.html.

Seeking help. It generally makes more sense to get help with your taxes if:

- You're buying or selling property.
- You own a business or rental property.
- You get regular income from a trust or partnership.
- You trade investments frequently or have a complex portfolio.
- You've undergone a major financial impact during the previous tax year, such as a divorce, death of a spouse, an inheritance or a move of more than 50 miles for a new job.
- You are supporting a child between the ages of 19 and 24 who is a full-time college student.
- You don't have time to do it yourself.
- You are subject to the Alternate Minimum Tax (AMT).
- Your income has increased by a considerable amount from the previous year.

You're still legally responsible for your return even though you have professional help, so it's important to choose a qualified professional to help you. The IRS gives the following suggestions for finding a qualified preparer:

1. **Ask how they charge.** Avoid preparers who claim they can obtain larger refunds than other preparers. If your returns are prepared correctly, every preparer should derive substantially similar numbers.
2. **Don't believe promises.** If a preparer guarantees results or bases fees on a percentage of the amount of the refund, be suspicious. Tax preparers aren't allowed to charge a contingent fee (percentage of your refund) for preparing an original tax return.
3. **Ask what preparers will need.** Reputable preparers will expect you to provide receipts and other paperwork if they need it to justify the return they're preparing for you. You need to keep scrupulous records.
4. **Make sure you know exactly who's preparing your return.** It's OK if your preparer has onsite staff assistance in preparation of your return, but the person you hire needs to be the person who reviews your return and signs off on it.
5. **Investigate your preparer's record.** Check with the Better Business Bureau, the state's board of accountancy for CPAs, the state's bar association for attorneys or the IRS Office of Professional Responsibility (OPR) for enrolled agents.
6. **Check your preparer's credentials.** Find out if the preparer is affiliated with a professional organization that provides or requires its members to pursue continuing education and holds them accountable to a code of ethics.
7. **Stay aware of tax scams.** Newspaper business sections and news programs focus on abusive tax shelters and scams. So does www.irs.gov. If you have a preparer encouraging you to get involved in tax avoidance strategies that are overly complex, check them out before you agree to jump in.

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APRIL FOOL'S! CAN YOU SPOT THE FINANCIAL MYTHS ON THIS LIST?

You have only one credit score, so you only have to check with one of the three major credit bureaus to find out what that number is.

MYTH: You have three credit scores, and they can vary widely. That's why it's important if you're applying for a loan to check with that prospective lender to see which agency's score they use before you apply.

I'm getting an extension on my 2006 tax return, so I can delay my 2006 IRA contribution too.

MYTH: Delaying your contribution past April 17 means it won't apply to your 2006 return. It'll give you a jump on your 2007 contribution, though.

I don't have to buy long-term care insurance because Medicare will pick up the tab.

MYTH: Under certain limited conditions, Medicare will pay some nursing home costs for Medicare beneficiaries who require skilled nursing or rehabilitation services. But long-term stays in a nursing home? That comes out of your pocket to the tune of a current average of \$60,000-\$75,000 a year. That's why you need to plan for long-term care either with your own assets or through the purchase of long-term care insurance.

A 25-year-old person who contributes \$200 a month to an IRA earning 8 percent annually until age 70 ½ could end up with as much as \$1 million for retirement from that investment alone.

FACT: Dedicated, regular retirement savings as early as possible can produce the best results for a well-funded retirement.

I don't need a lawyer to produce a valid will.

FACT: In some states, you may be able to write a will yourself or use home computer software to do so, with one key requirement – you'll need two or more witnesses to sign the will at the same time to make it valid. However, if you have significant assets or a need to divide your estate among many people, it's really wise to consult an estate attorney.

I can write off all expenses on my home.

MYTH: Home additions, insurance costs, renovations, condo fees; don't think every dime you spend on your home is deductible as are property taxes and mortgage interest. This is why it's critical to work with a tax advisor or a financial planner when determining what home-related issues are deductible.

Disability insurance is a critical part of a financial plan.

FACT: Long-term disability insurance is critical if you are self-employed – you need a source of replacement income if you're unable to work. But it's also important to have if you work for an employer – most companies provide only short-term disability coverage.

The average American college student graduates with \$8,500 in debt.

MYTH: Roughly two-thirds of American college graduates are leaving school with substantial debt to pay off – an average of \$19,200, according the Project on Student Debt.

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Cash-back credit cards will put more money in my pocket

MYTH: Only if you pay off those balances every month. Rewards cards traditionally carry higher interest rates than other cards, so if you don't pay your balance off in full, you're better off with a low-interest credit card than you are with a cash-back or rewards card.

My credit score can actually affect my insurance rates.

FACT: Increasingly, insurance companies are using credit scores as one predictor, not only of on-time payments, but also of an individual's overall financial behavior that increases their level of risk. Financial institutions and employers are increasingly checking credit scores to decide which customers they plan to accept.

You'll get every dime out of a home remodeling project when it's time to sell.

MYTH: Valuing home remodeling projects is tricky business, particularly in a slower real estate market. Home improvements can add to your property's value, but the days of speedy renovations becoming big moneymakers are over. What really appreciates? The value of the land underneath the house. That doesn't mean don't renovate – do so for your own pleasure and for the basic maintenance of the home. Just don't expect to hit the lottery doing it.

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