Life changes can mean tax changes

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If you welcomed a new child, you'll also welcome an additional tax exemption, worth $4,000 on your 2015 taxes.

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By Lynn Asinof | GLOBE CORRESPONDENT FEBRUARY 13, 2016

When it comes to taxes, this might be the year to think big picture.

Because most of this year's filing changes are relatively minor — inflation-indexed increases to certain exemptions and deductions, for example — taxpayers might want to think about how changes in their personal lives will affect their tax filing.

Did you move to a new state, buy a house, get married, get divorced, or have children? Did your company move to a high-deductible health insurance plan? Has your salary increased dramatically? Did you retire or start taking Social Security?

Each of these events could have a significant effect on your taxes this year and require a recalibration in your tax calculations. So as you pull out your W-2s and 1099s, think about what changed for you in 2015.

First of all . . .

Some of these changes are pretty straightforward. If you bought a house, you can now deduct your mortgage interest and your property taxes. If you welcomed a new child, you'll also welcome an additional tax exemption, worth $4,000 on your 2015 taxes. If you got married or divorced, your filing status will change.

Filing taxes yourself can be easy

Today's software offers clear instructions and tools that virtually hold the user's hand through the process.

Remember, the IRS only cares about your marital status as of Dec. 31. So if your divorce became final in December, you will be filing as a single person even though you were married for most of the year.

Those who started student loan repayments last year should remember that up to $2,500 of interest on these loans is tax deductible. This deduction, however, is phased out for higher-income taxpayers. For 2015, the phase out begins at $130,000 on a joint return and $65,000 for a single individual.

As your income rises, you might find yourself not only phased out of the student-loan interest deduction and other tax breaks, but also in a higher tax bracket. As such, it makes sense to look for ways to reduce your taxable income. That includes maxing out on contributions to tax-advantaged

retirement, dependent care, and health care accounts.

Last chance to lower tax bill

For most, the only technique still available to lower 2015 income is to make tax-deductible contributions to certain retirement plans.

Taxpayers can contribute up to $5,500 to their traditional IRA, with an additional $1,000 catch-up contribution allowed for those 50 and older.

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If you got married during 2015, your filing status will change.

If you are covered by a retirement plan at work, however, that deduction disappears for a couple with a modified adjusted gross income of $118,000 or $71,000 for a single individual. In Massachusetts, taxpayers have until April 19 to make their 2015 IRA contributions.

Those who are self-employed have until their filing deadline, including extensions, to contribute to a SEP-IRA. Here, annual pretax contributions are limited to 25 percent of income, up to a maximum contribution of $53,000.

Time to think ahead

And while you're thinking about it, it's a good time to start trimming your 2016 taxable income. Make sure you're taking full advantage of your 401(k), where this year you can make pretax contributions of up to $18,000 a year. For those older than the age of 50, it's $24,000.

Flexible spending accounts, offered through employers, are a use-it-or-lose-it way to tuck away pretax dollars, using them to fund both health care expenses and child care costs. In 2016, you can put up to $2,550 of pretax money into a health care account and as much as $5,000 into a dependent care account. Any funds not used within the allowed time — typically by Dec. 31 or March 15 the following year, depending on your plan — are forfeited.

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In 2016, you can put up to $5,000 into a dependent care account.

If you have a high-deductible health care plan at work, chances are you have access to a Health Spending Account. Unlike flexible spending accounts, funds put into an HSA aren't subject to an expiration date. They can be carried forward year to year and even into retirement. That makes them an attractive vehicle for lowering income through pretax contributions.

"HSAs are particularly flexible," says Grafton "Cap" Willey, a managing director in the tax group at CBIZ Tofias in Providence. "The money is tax-deductible going in and tax-free coming out when spent on qualified medical expenses."

For 2016, individuals can contribute $3,350 a year to their HSA, while those with family plans can contribute $6,750. Those 55 and older can boost that amount with a $1,000 annual catch-up contribution.

Retirement planning

If you have already signed up for Medicare, you won't be able to make further contributions to your HSA, although you can continue to use the account to pay for qualified medical expenses.

But that's just one adjustment that folks heading into retirement will need to make. Once Social Security benefits, retirement plan distributions, or pension benefits kick in, people might be surprised by both the size of their tax bills and the assessment of tax penalties.

That's because distributions from most retirement plans are taxable and Social Security benefits may be taxed as well, said Dana Levit, a fee-only financial planner at Paragon Financial Advisors, Newton. "The first couple of years can be a shock when people realize that they have underpaid their taxes," she said. Many will have to begin making estimated tax payments to cover their tax liabilities and avoid penalties.

Tax refund fraud remains a big issue; the IRS estimates it thwarted about $11.8 billion in attempted fraud last year. To prevent someone from fraudulently filing for a refund with your Social Security number, the IRS is teaming up with tax software providers to identify bogus returns, says Mark Luscombe, principal federal tax analyst with Wolters Kluwer Tax and Accounting US, a provider of tax and accounting information and software.

Some taxpayers might find they have additional identification numbers on their W-2s, he says, noting this is part of a test program that makes it harder to submit fraudulent W-2s.

If you file your return only to find that someone has already claimed a refund in your name, you should notify the IRS and file Form 14039. The IRS also wants to know if you receive suspicious IRS communications seeking money or personal information. Remember: The IRS does not initiate contact with taxpayers by e-mail, fax, or any social media, nor does it make threatening phone calls.

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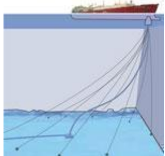

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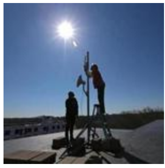

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