BankFinancial Trust & Investment Services

BankFinancial Newsletter
Planning Your Financial Future

March 2019

Due Date Approaches for 2018 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2017 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate

The filing deadline for most individuals is Monday, April 15, 2019. Residents of Maine and Massachusetts have until April 17, 2019, to file their 2018 tax return because April 15, 2019, is Patriots' Day and April 16, 2019, is Emancipation Day.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2019) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension (to June 17, 2019) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is now required to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return. However, delays may be possible due to the government shutdown.

Trust & Investment Services
630.242.7635
AMTS@BankFinancial.com

What records do I need to file my taxes?

Tax season is a good time to get your financial records in order. And whether you are doing it on your own or hiring a tax preparer to assist you, you'll want to make sure that you have all of your information organized to make the process of filing your taxes easier.

Sometime in January you should have received your W-2 form from your employer. Your W-2 form lists your gross income, taxable income, and the amount of state and federal taxes withheld from your pay. It also will show any 401(k), health insurance, and flexible spending account contributions you have made.

Around the same time that you got your W-2, you should also have received 1099 forms from financial institutions for any dividend and interest income. And if you have a mortgage, your mortgage servicer sent you a 1098 form, which contains information on interest paid along with other mortgage-related expenses.

In addition to the above-referenced forms, you'll need to provide your personal information, including your date of birth and Social Security or tax ID number. If you are married and/or have children, you will need their information as well. You should also have documents that list any additional sources of income, such as self-employment, rental, retirement, or unemployment income.

Make sure that you keep all your financial records in a safe and easy-to-find place. Being organized is not just a good idea during tax time, but is also helpful at other times of the year (e.g., when you apply for a loan or financial aid for college).

You may also need:

Depending on whether you qualify for any tax deductions or credits, you may also need the following information:

- Records of cash and non-cash charitable donations
- Amounts paid toward medical, dental, and vision expenses
- Federal, state, and local taxes paid (including quarterly estimated tax payments)
- Dependent-care provider information
- Receipts for education-related expenses

Tax Scams to Watch Out For

While tax scams are especially prevalent during tax season, they can take place any time during the year. As a result, it's in your best interest to always be vigilant so you don't end up becoming the victim of a fraudulent tax scheme.

Here are some of the more common scams to watch out for.

Phishing

Phishing scams usually involve unsolicited emails or fake websites that pose as legitimate IRS sites to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft.

It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media. If you get an email claiming to be from the IRS, don't respond or click any of the links; instead forward it to phishing@irs.gov.

Phone scams

Beware of callers claiming that they're from the IRS. They may be scam artists trying to steal your money or identity. This type of scam typically involves a call from someone claiming you owe money to the IRS or that you're entitled to a large refund. The calls may also show up as coming from the IRS on your Caller ID, be accompanied by fake emails that appear to be from the IRS, or involve follow-up calls from individuals saying they are from law enforcement. Sometimes these callers may threaten you with arrest, license revocation, or even deportation.

If you think you might owe back taxes, contact the IRS for assistance at irs.gov. If you don't owe taxes and believe you have been the target of a phone scam, you should contact the Treasury Inspector General and the Federal Trade Commission to report the incident.

HOW MANY DEPENDENTS?

...AND I HAVE 75 MORE DEPENDENTS AT HOME.

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Stay one step ahead

The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- Maintain strong passwords
- Consider using two-step authentication
- Keep an eye out for emails containing links or asking for personal information
- Avoid scam websites
- Don't answer calls when you don't recognize the phone number

Tax return preparer fraud

During tax season, some individuals and scam artists pose as legitimate tax preparers, often promising unreasonably large or inflated refunds. They try to take advantage of unsuspecting taxpayers by committing refund fraud or identity theft. It is important to choose a tax preparer carefully, since you are legally responsible for what's on your return, even if it's prepared by someone else.

A legitimate tax preparer will generally ask for proof of your income and eligibility for credits and deductions, sign the return as the preparer, enter the Preparer Tax Identification Number, and provide you with a copy of your return.

Fake charities

Scam artists sometimes pose as a charitable organization in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations, or that suddenly appear after a national disaster or tragedy. Before donating to a charity, make sure that it is legitimate. There are tools at irs.gov to assist you in checking out the status of a charitable organization, or you can visit charitynavigator.org to find more information about a charity.

Tax-related identity theft

Tax-related identity theft occurs when someone uses your Social Security number to claim a fraudulent tax refund. You may not even realize you've been the victim of identity theft until you file your tax return and discover that a return has already been filed using your Social Security number. Or the IRS may send you a letter indicating it has identified a suspicious return using your Social Security number. If you believe you have been the victim of tax-related identity theft, you should contact the IRS Identity Protection Specialized Unit at 800-908-4490 as soon as possible.

Finally, if you are ever unsure whether you are the victim of a scam, remember to trust your instincts. If something sounds questionable or too good to be true, it probably is.

Comparing Financial Aid Packages

With the cost of college continuing to increase year after year, applying to college usually involves applying for financial aid. And for many families, financial aid can be the deciding factor in whether a child attends the college of his or her choice. As a result, it's important to understand how the aid process works so you can compare the financial aid packages your child receives.

What types of financial aid are available?

Financial aid is money distributed primarily by the federal government and individual colleges in the form of student loans, grants, scholarships, and work-study jobs. Loans and work-study must be repaid (through monetary or work obligations), while grants and scholarships do not. A student can receive both federal and college aid. Financial aid can be further broken down into two types of aid: need-based, which is based on your child's financial need, and merit-based, which is based on your child's academic, athletic, or artistic merit.

How is financial need determined?

Financial need is generally determined by looking at your family's income, assets, and household information. The government's aid application, the Free Application for Federal Student Aid (FAFSA), uses a formula known as the federal methodology to calculate financial need. The resulting figure is known as your expected family contribution or EFC, which is the amount of money you must contribute toward college costs in order for your child to be eligible for need-based financial aid. Your EFC remains constant, no matter which college your child applies to. If you filled out the FAFSA this past fall, you received a Student Aid Report outlining your family's EFC.

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The Student Aid Report that outlines your EFC is also sent to each college that your child listed on the FAFSA. The financial aid administrator at each school that has accepted your child uses the report to come up with an aid package that attempts to meet your child's financial need.

Keep in mind that your EFC is not the same as your child's financial need. To calculate financial need, subtract your EFC from the cost at any given college. Because tuition, fees, and room-and-board expenses are different at each college, your child's financial need will vary depending on the cost of a particular college.

And just because your child has financial need doesn't necessarily mean that colleges will meet 100% of that need. In fact, it's not uncommon for colleges to meet only a portion of it. If this happens to you, you'll have to make up the gap, in addition to paying your EFC.

What about merit-based aid?

Colleges often use favorable merit aid packages to attract certain students to their campuses, regardless of their financial need. The availability of college-sponsored merit aid tends to fluctuate from year to year and from college to college as schools decide how much of their endowments to spend, as well as the specific academic and extracurricular programs they want to focus on.

How should you compare aid awards?

Sometime in late winter or early spring, your child will receive financial aid award letters that detail the specific amount and type of financial aid that each college is offering. Some colleges may send a letter, some may post the information on a password-protected online site, and some may do both. Make sure to look over the award carefully. If you have questions or your financial circumstances have changed since you filed the FAFSA, contact the college's financial aid office.

To compare offers, first determine your out-of-pocket costs, or net price, for each school by subtracting any grant or scholarship aid (which doesn't need to be repaid) from the total cost of attendance. Next, look at the loan component of each award to see how much, if any, you or your child will need to borrow. Then compare the net price and loan amounts across all colleges.

What if you didn't get the financial aid package you were expecting?

If you'd like to lobby a particular school for more aid, tread carefully. A polite letter to the financial aid administrator followed up by a phone call is appropriate. Your chances for getting more aid are best if you can document a change in circumstances that affects your ability to pay, such as a recent job loss, unusually high medical bills, or some other unforeseen event.

How much should you rely on aid?

While financial aid can play a part in helping pay for your child's college education, you shouldn't rely too heavily on it. Absent a large college grant or scholarship, student loans often make up the largest percentage of the typical financial aid package. It's important to remember that if you mainly rely on loans to finance your child's college education, you and/or your child can end up with a large amount of debt that can become burdensome.

Trust & Investment Services
630.242.7635
AMTS@BankFinancial.com

1.800.894.6900 | bankfinancial.com