July
2013

Peck Financial Advisors

Valerie L. Peck, MBA, CFP® Presents:

Five Life Changes and Their Tax Consequences

Your life is constantly changing, and so is your tax situation. To keep your financial plan on track, you should periodically review your tax situation, especially after major life events, like getting married or having a baby. That way, you can be confident that you are doing everything you can to avoid paying more taxes than necessary.

Below, we explain how some major life events may affect your tax situation.

Changing Jobs

You'll probably switch jobs a few times over the course of your career, and each of those moves could also change your tax situation. During any job change, it's important to consider any potential tax consequences, especially when it comes to making a decision about an employer-sponsored retirement plan. Decisions you may need to make about an existing retirement plan include whether to roll over the funds, leave the money where it is or cash out. Think carefully before you make your decision—cashing out could mean you'll pay taxes and penalties to the IRS, while rolling over the funds could mean your savings will continue to grow tax-deferred until you retire.

When you start a new job, you'll also need to make decisions about tax withholding and benefits, including how much to contribute to tax-advantaged accounts, such as your 401(k), flexible spending account (FSA) or health savings account (HSA). In addition, if you've relocated for a job, you may be able to deduct some of your moving expenses on your taxes; job-search expenses may also be deductible.

Peck Financial Advisors
7676 Hazard Center Drive
Suite 500
San Diego, CA 92108
www.peckfa.com
800-788-8704

Marriage

Getting married is a big decision, and it has a big impact on your taxes. But if you're worried about the marriage penalty, you shouldn't lose too much sleep over it. Adjustments to tax brackets mean that the marriage penalty affects far fewer people than it used to (although higher income couples are more likely to feel the sting). Whether you'll end up paying more or less in taxes after your marriage will really depend on your combined income and what filing status you use (married filing jointly or married filing separately).

After your marriage, you should also review your tax withholdings and employer benefits. And if you've changed your name, be sure to let the Social Security Administration (SSA) know. If the name on your tax return doesn't match what the SSA has on file, your refund could be delayed.

Birth of a Child

If you decide to have children, you can count on it having major tax implications. Most significantly, you'll be able to claim your child as a dependent on your tax return and, if you qualify, the child tax credit as well (currently $1,000 a year per child). To account for these new credits and deductions (and boost your take-home pay), be sure to adjust your tax withholdings accordingly.

Other tax implications of having children include:

- Head of household status: If you're a single parent, you can use the "head of household" filing status, which qualifies you for a bigger standard deduction and can keep you in a lower tax bracket.

- Tax benefits for childcare: You have two tax-advantaged options to help you manage the cost of childcare: the childcare tax credit or a flexible spending account.

  If you're paying someone to watch your child so you can continue to work, you may be able to claim the childcare tax credit. It could be worth more than $1,000, depending on how much you pay for childcare and how many kids you have.

  An FSA is another option if you're paying for childcare, assuming your employer offers this benefit. Instead of claiming the tax credit, you can put money in an FSA for childcare reimbursement. You don't have to pay income or FICA tax on money put into these accounts and you can set aside up to $5,000 per year. However, these are "use-it-or-lose-it" funds, so if you don't spend the money before the end of the year, you'll forfeit it.

- Adoption assistance credit: If you decide to adopt a child, you may be eligible for a tax credit to offset the associated expenses.

- College savings: With the cost of a college education constantly rising, it's never too early to start setting aside funds to pay for future educational expenses. You won't get a deduction for putting money into a 529 plan or Coverdell Education Savings Account, but the earnings will grow tax-free, and distributions are usually tax-free if they're used for qualified education expenses.

Divorce
Just like a marriage, getting divorced usually comes with some pretty significant tax changes. First, your tax filing status is going to change. You could also face some complicated issues related to the property settlement, alimony payments, child support payments, and even who gets to claim exemptions for any children. If your divorce is amicable and you have no kids, the tax concerns may not be that difficult to address. But if your divorce is contentious, negotiating these issues can be a challenge.

Death of a Spouse
If your husband dies, you'll be able to use the married filing jointly status when you file taxes for the year in which he passes away. If you have a dependent child, you may be able to file as a qualifying widow for the next two years.

The death of a spouse can also come with estate tax implications. You'll need to work with experienced professionals (e.g., an estate attorney and an accountant) to make sure you understand how your income and tax situation has changed as a result of your spouse's death.

Stay on Top of Your Tax Situation
When it comes to taxes, don't let life changes derail your plans. If you've experienced a major life event that could change your tax situation, talk to an experienced financial or tax professional. There may be steps you can take to minimize your tax burden.

Peck Financial Advisors
7676 Hazard Center Drive
Suite 500
San Diego, CA 92108
www.peckfa.com
800-788-8704