



# Focus on Financial Fitness

## *Maintaining Your Financial Health*

### Due Date Approaches for 2018 Federal Income Tax Returns

#### Dolan Financial Services

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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.

**Note:** *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.

#### Dolan Financial Services - March 2019

Comparing Financial Aid Packages

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# Comparing Financial Aid Packages



**To compare financial aid offers, first determine your out-of-pocket costs, or net price, at each school.**

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.

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.



## Four Reasons Your Parents Might Be in Financial Trouble



*When retirees were asked about their overall expenses and spending in retirement, 37% said they were higher than expected, 52% said they were about what they expected, and just 8% said they were lower than expected.*

*Source: 2018 Retirement Confidence Survey, Employee Benefit Research Institute*

As your parents age, they will probably need more help from you. But it may be difficult to provide the help they need, especially if they're experiencing financial trouble.

Money can be a sensitive subject to discuss, but you'll need to talk to your parents about it in order to get to the root of their problems and come up with a solution. Before you start the conversation, consider the following four scenarios as signs that your parents might be experiencing financial challenges, and how you can make things easier for them.

### 1. They are dealing with debt

Perhaps your parents have fallen behind on their mortgage or credit card payments. Maybe they're dealing with the aftermath of a large, unexpected medical bill. Or it could be that years of generously supporting their children and grandchildren have left their finances in shambles.

Whatever the cause, debt among older Americans is a growing trend. In 2010, the average debt for a family in which the head of household was age 75 or older was \$30,288. In 2016 (most recent data available), that number grew to \$36,757.<sup>1</sup>

### 2. They are falling for fraud

According to a report by the Federal Trade Commission, older adults have been targeted or disproportionately affected by fraud. Moreover, older adults have reported much higher dollar losses to certain types of fraud than younger consumers.<sup>2</sup>

Why do scammers target older individuals? There are many explanations for this trend. Some older individuals lack an awareness about major financial issues. Others may be attractive targets for scammers because they have access to retirement account assets or have built up home equity. Additional factors that increase an older adult's vulnerability to scams include cognitive decline and isolation from family and friends.

### 3. They aren't used to managing finances

The loss of a spouse can create many challenges for the survivor, especially if the deceased spouse was in charge of finances. Many widows or widowers might find themselves keeping track of statements, paying bills, budgeting, and handling other financial matters for the first time, which can be a complicated reality to face.

### 4. They struggle with change

As financial institutions continue to innovate and increase online and mobile access to customer accounts, it can be difficult for older consumers to keep up. For example, some older adults may struggle with accessing their financial information online. Others might get frustrated or confused when financial institutions implement new policies and procedures, especially if they've had an account with an institution for decades.

One report described the most common issues that older consumers identified with bank accounts or services. The top three complaints involved account management (47%), deposits and withdrawals (27%), and problems caused by low funds (12%).<sup>3</sup>

### Ways you can help

Regardless of the reasons why your parents might be having money problems, there are steps you can take to help them.

- **Set up a meeting with a financial professional.** Encourage your parents to meet with a professional to evaluate their financial situation.
- **Help them reduce spending.** Look for big and small ways that they can scale back on expenses, such as downsizing to a smaller home, cutting cable plans, or canceling unnecessary memberships/subscriptions.
- **Have them tested for dementia.** If you've noticed behavioral or memory changes in one or both of your parents, share your concerns with a medical professional. Cognitive decline can result in difficulty managing finances.
- **Lend money (using caution).** If you decide to help your parents monetarily, consider paying your parents' expenses directly rather than giving them cash so you can ensure that their bills are paid on time.
- **Help them apply for assistance.** The National Council on Aging has a website, [BenefitsCheckUp.org](https://www.benefitscheckup.org), that can help you determine your parents' eligibility for federal, state, and private benefit programs.

<sup>1</sup> Debt of the Elderly and Near Elderly, 1992-2016, Employee Benefit Research Institute, 2018

<sup>2</sup> Protecting Older Consumers: 2017-2018, Federal Trade Commission, 2018

<sup>3</sup> Monthly Complaint Report, Vol. 23, Consumer Financial Protection Bureau, May 2017

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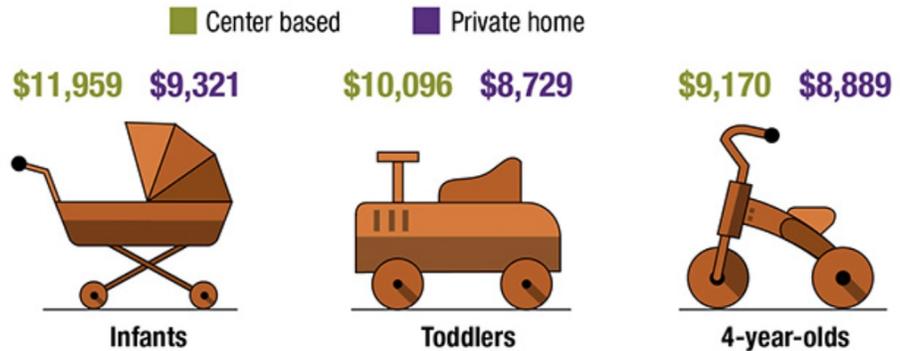
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## How much does child care really cost?

Typical child-care fees vary widely by state, as do other living costs. But in all regions, the average annual cost of center-based care for one infant now exceeds the average amount of money families spend on food and transportation combined. Child-care costs for two children exceed the median cost of housing for homeowners with a mortgage in 35 states and the District of Columbia.

### Average annual cost for full-time child care (nationwide)



Source: Child Care Aware® of America, 2018 (data for 2017)



## How can I get a tax break for child care?

More than 60% of children under age six in the United States have two parents in the workforce.<sup>1</sup> Many of these working parents must spend a burdensome share of their earnings on child care, especially if they don't have relatives who are willing and able to help out.

The following tax benefits may help you offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you can work.

### Child-care tax credit

Families with one qualifying child (typically age 12 or younger) can claim up to \$3,000 per year in child-care expenses; those with two or more qualifying children have a \$6,000 annual limit. The credit is worth 20% to 35% of eligible child-care expenses, depending on income. As income rises, the credit amount drops until it hits a minimum of 20% for households with \$43,000 or more in adjusted gross income.

For example, families with one qualifying child can receive a credit of \$600 to \$1,050; those with two or more children can receive a credit of \$1,200 to \$2,100. A tax credit lowers a family's tax liability dollar for dollar.

### Dependent-care flexible spending account (FSA)

Higher-income families may realize a bigger tax benefit from an FSA if it is offered by an employer. Up to \$5,000 a year can be set aside to cover eligible child-care costs for qualifying children, and this money is free of federal income tax and Social Security and Medicare taxes. You are not allowed to use pre-tax money from an FSA and take a credit for the same expenses. However, after spending \$5,000 from an FSA, you may take a tax credit for up to \$1,000 in additional child-care expenses if you have more than one child.

<sup>1</sup> Child Care Aware® of America, 2017

