

EPISODE 400

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[ASK FARNOOSH]

[0:00:46.2]

FT: Welcome back to So Money everyone, April 15th, 2016. If you're worried about your taxes because you think it's tax day because normally it is on April 15th. Well good news, you have until Monday to file your taxes and get those papers into Uncle Sam and today on So Money, we're dedicating a large part of the show to taxes.

Getting some of your last minute questions answered and also the all to important question of what to do with your tax refund. The average tax refund I think is around \$3,000 so that's not chump change, you can do some significant things with that whether you're in debt or you want to start a business or you want to just have fun, go on a vacation, buy a car, what to do?

So to help us with all of that and more, I brought back on our friend of So Money, Sophia Bera. She is the founder of Gen Y Planning, it's a financial planning service for people primarily in their 20's and 30's all across the country. She's my friend, she is excellent at what she does, check her website out at GenYplanning.com.

Sophia, are you there?

[0:01:58.9]

SB: I am, I'm so excited to be here Farnoosh, it's great to be back, thank you.

[0:02:03.8]

FT: I hear you've moved since we last spoke, where are you right now?

[0:02:08.0]

SB: I have. So I moved to Austin, Texas in December and I absolutely love it here, it's fabulous.

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FT: What made you want to move to Austin? Because one of the things that you really liked about your career, your work, was that you were location agnostic. You were like, "I could live everywhere," and you were floating for a while, you were going from city to city, getting a different flavor of every kind of geographical region but you landed in Austin, what ultimately made you want to make the move? Is it affordable?

[0:02:34.1]

SB: Yeah, it's actually very, it's almost — so I was living in Minneapolis before. I was kind of based on Minneapolis and the cost of living is actually really similar but the weather is way better. So I'm very happy in Austin. When people ask me why I move, I tell them entrepreneurs, breakfast tacos, and pool parties. I feel like those are three really good reasons to move.

Yeah, I just ended up connecting with some great friends down here, a lot of people here are working at startups, run online businesses and it just was a really good fit for me in terms of the community. So that was really exciting and then I can't complain about the weather. It's been in the 80's the past few days.

[0:03:20.6]

FT: Yeah.

[0:03:22.5]

SB: I'm loving that.

[0:03:24.7]

FT: Yeah that's great. I can't say the same for us here in New York, it's been pretty awful. Hopefully the sun will come out one day and the snow will subside and in the meantime, I can cozy up to you and I can dream about Austin.

[0:03:38.6]

SB: You just have to come visit Farnoosh.

[0:03:40.9]

FT: I was actually there for South by Southwest and prior to that we were there filming for my CNBC show Follow the Leader. John Paul DeJoria lives in Austin, billionaire.

[0:03:49.2]

SB: Very cool, I didn't know that.

[0:03:51.7]

FT: Yes. All right Sophia, so it's April 15th, I'm going to just take a guess that a lot of us have not filed our taxes yet as procrastination is rampant around this season. What are some last minute tips for people who are just getting started? They have 72 hours.

[0:04:10.4]

SB: So one thing to note is that you can file an extension and I would encourage people to file an extension rather than sloppily do your taxes. So file an extension and do them right, get them

done right, ask for help if you need to. I really think that getting a good tax professional on your team can be extremely helpful when you're making these decisions around your money and your finances.

The last thing you want is a tax error that is of a mistake with the IRS catches that then you have to go back and amend your taxes. Make sure that they're done right the first time, file an extension if you need to or ask for help. Reach out to a CPA or a tax accountant that you know and trust.

[0:04:56.6]

FT: I filed an extension, yes I did.

[0:05:00.1]

SB: Yeah? Good for you.

[0:05:00.6]

FT: Even though I'm a host of a podcast called So money, well I have my business taxes and I have my personal taxes. My business taxes got filed a while ago but my personal waited, it was just because I wanted, like you said, I wanted to have more time with my accountant to really go over the deductions and she was overwhelmed as well, it's no problem, I've already paid my taxes which is important right? We want to mention, even if you get the extension, you still have to, if you think you owe money, pay your taxes by April 18th.

[0:05:30.7]

SB: Exactly.

[0:05:31.9]

FT: So just be cautious of that.

[0:05:34.1]

SB: Yeah, if you think you're going to get a refund — if you know you're going to get a refund then filing an extension isn't that big of a problem. But if you know that you owe, you still need to pay your tax bill by April 18th. So don't just file and think that that extends the due date for when your taxes are due. Because it doesn't and you'll be hit with fees and penalties for that. I think that that's a really great point.

Last year or the year before, I had to file an extension. I was in the same boat, there's just some years that that happens and so just to know that that's okay but just to make sure that, like you said, you're going over your return with your accounting, you're making sure you get all the deductions you qualify for and that you're doing them right the first time around.

[0:06:16.9]

FT: Right, you mentioned earlier that one of the big reasons why you would want to file an extension is so that you avoid mistakes. What are some of the big mistakes that people make other than the little ones? People really spell their names wrong, they put the wrong address, if you got married and you forgot or you just have been so used to doing your taxes in a certain way, filing single instead of married. Those things happen. So it's worth just checking those little things but what about the big things? What do people overlook?

[0:06:43.9]

SB: I think that taxes can be very overwhelming and complicated and just making sure that you're getting the deductions and the tax credits that you qualify for. Student loan interest deduction, depending on your income, you could deduct up to \$2,500 a year in student loan interest, which is a big one for Millennials. One of my favorite tax credits is called the saver's credit. Depending on your income, you could actually get a tax credit for contributing to your retirement accounts.

That's one big one that I think that people overlook. There is other tax credits as well for going back to school. Let's say you started taking some classes but because you're just going part time, you don't think, "Oh, I could get a tax credit for this or I could get a tax deduction for this," because maybe you already have your undergrad degree or whatnot.

There are tax credits out there available and tax deductions out there for going back to school. Make sure you look into that as well. Those are a few things that come to mind when I think of things that especially young people qualify for that they might overlook.

[0:07:51.3]

FT: What about getting that last minute help? Right now, CPA's are busy, they're not going to work with you. So what's the next best solution if you need assistance and you don't want to file an extension?

[0:08:03.8]

SB: There are VITA Clinics across the country which stands for Volunteer Income Tax Assistance. Those are fantastic, they are staffed with CPA's, tax accountants and financial planners to help you with your tax situation. They're specifically for low to moderate income workers but I would definitely go online, find a VITA Clinic in your area and see if you qualify because depending on if you're single versus married or if you're the head of household, they have different income limits.

I would start there because that's really affordable. Sometimes they'll even do your taxes for free. When I had first graduated from college, I heard about these and I ended up finding one in my area and getting my taxes done there for free and I thought it was such a fantastic service and so exciting, it's a great place. The place I went to in Minnesota is called Prepare and Prosper. They do a fantastic job, they're in Minneapolis and Saint Paul.

They did such a great job and they helped me through my situation which to me was really complicated and overwhelming and to them was something they were used to seeing throughout all of tax season right? It's dealing with people's returns and whatnot. They were

able to really ease my mind, know that my taxes were done correctly, and now I try to send them a donation every year so that somebody else can get their taxes done for free. Because that helped me so much at a time when I really needed it. So I would say to start there.

Then if you are more moderate to higher income, H&R Block is a really blanket solution across the country. If you want to do your own taxes, Turbo Tax, if you've done them before, if you just have like W2's and maybe some 1099 interest, it might be worth it to just do it yourself, but I still think that people's tax situation is more complicated than most people realize. Especially if you're a freelancer or you have multiple income streams or you have a rental property, there's different things that can make our tax lives complicated.

If you're a high income earner to watch out for other things that are happening in terms of, that could affect your tax situation as well. Making sure that you're paying — sometimes you might be subject to AMT, which is the alternative minimum tax. So making sure that your taxes were done correctly and that if you had to pay AMT that you paid AMT. So those are some things to be aware of when you're thinking about your taxes and reaching out for help.

Also to talk to your friends about who they're using, who they recommend, if they had a good experience with their accountant. Talk to your — if you have a financial planner. For my clients, I refer all my clients to a CPA or a tax accountant or an EA that's within my network that I really trust that's helped a bunch of my clients in the past. I think that that's part of building a solid financial team and a tax accountant is a great person to have on that team.

[0:11:27.2]

FT: Okay, let's answer the big question everybody wants answered, which is, "What do I do with my refund?"

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SB: Yeah, that's exciting. First of all, you got a refund.

[0:11:36.6]

FT: Yeah, congratulations. Are you in that camp of kind of expert that things that if you got the refund, you did something wrong, maybe withholding more or less or whatever it is.

[0:11:48.2]

SB: Yeah, it depends on how much your refund is. So I think that if you are getting a couple of thousand dollars back, it might be worth it to change your tax withholdings so that you get more of that throughout the year. However, I think a lot of it comes down to behavioral finance too.

If it's better for you to get a lump sum once a year and you know that you'll use that money then towards your financial priorities, it might not be better to spread that out throughout the year if it's just going to get eaten up in your normal cash flow versus if you would actually use that \$3,000 tax refund to pay off a credit card or build up emergency savings or whatnot. So I think that it largely depends on the person.

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FT: What would you do with your tax refund right now?

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SB: I'm actually getting a refund Farnoosh, which is really exciting.

[0:12:39.6]

FT: Do you normally not?

[0:12:41.5]

SB: Well I didn't think I was this year because I had made estimated payments and whatnot but I had a lot of business deductions. So I had more business deductions than my tax accountant

had anticipated, so I'm going to get a pretty big refund and I'm going to use mine to max out my Roth IRA this year for 2016.

[0:13:02.0]

FT: How boring is that? No I'm kidding.

[0:13:04.5]

SB: I know, isn't that super boring? I also — but I think, you know, for me it's like I would rather do that than have to put a couple of hundred dollars every month into my Roth IRA. I love that it's like check the box off and it's done. So for me, I know that that works really well. I also think that taking 10% and splurging or spending it on something you really want is totally appropriate.

If you can use the majority of your tax refund to go towards your financial priorities, it's okay to go out on a date night with your significant other or throw half of it into your emergency savings and half into the vacation savings. Or do something like that. I also think that it's a good way to kind of check off some of those big financial goals.

Maybe you just have a couple of thousand dollars left on a credit card and you want to just knock that credit card debt out and be able to start fresh this year, not have that credit card debt and really start then, earmarking the money that you were paying if you're paying a couple of hundred dollars a month towards your credit card debt, immediately have that go to your emergency savings every month.

[0:14:19.6]

FT: Very good advice.

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[0:15:21.4]

FT: All right, ready to answer some questions from listeners? We actually do have a question from Lindsey who — it's a tax related question. Not about refunds but she's kind of concerned about her identity, her financial identity and maybe being compromised. So here's what she says. She says that she has the potential problem! Here's what's going on: She somehow misplaced the tax information of her and her husband's tax information including their W2's. She said:

[0:15:49.4]

L: "Luckily we have already entered all that information but I'm freaking out that someone else may have found my tax information. I've already checked my husband and my own credit report. Nothing is out of the ordinary, but I think you mentioned to someone that you can notify the credit reporting companies in the event that you feel your credit might be compromised. Please help, thank you for this podcast in the Ask Farnoosh episodes. You've answered two questions for me so far and helped me immensely."

[0:16:27.4]

FT: Well Lindsey, happy to help you with this third question. Definitely I think she should put her fraud alert maybe, can't hurt on her credit profile and also her husband's.

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SB: Right, I think that's a great idea.

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FT: Just really keep your eye out because tax fraud is rampant unfortunately.

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SB: Yeah, my parents had an issue with that a few years back where somebody tried to — they couldn't e-file and their tax accountant was like, "Well, we're having a problem e-filing," and it was because somebody had tried to use one of their social security numbers to file.

Just like weird stuff like that happens, and I think that putting a fraud alert is a great idea. You can get life lock, which there's different programs out there to help monitor your credit. I think pulling a copy of your credit reports in a couple of months just to take a look at everything is never a bad idea.

It could be really helpful just to make sure there's nothing strange that pops up. And I think that just taking those simple precautions like you said can be really helpful. That way if somebody tries to open a credit card in your name that the fraud alert will be on there and the credit card company would contact you before issuing that.

[0:17:41.4]

FT: Yeah, let's hope that it's not in the wrong hands. Most likely it's not. Hopefully it's just somewhere where you will eventually find it or someone will find it and just maybe shred it or hopefully just leave it there. But you're good to be cautious, so the best step I think is just to be proactive and keep a watch on your finances, your credit, your credit reports and also file your taxes on time. Because that's going to ensure that if anyone wants to fake file taxes under your name, that you do it first and that way they're the ones that are going to get caught and rejected.

[0:18:16.7]

SB: Right. Great advice.

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FT: Yeah, it's happened to my friend and it takes a long time to unravel tax fraud, it does unfortunately. Okay, Jackie writes in and she says, this is a non-tax related question but you are a financial adviser so it's very à propos. She says:

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J: "Can you recommend a financial adviser? I live in Florida."

[0:18:37.0]

FT: Well, we'll help you as best we can but she has more to her question. She says:

[0:18:41.0]

J: "Can I lower my income by putting money in my 401(k) or my HAS? I'm asking because I have to pay Uncle Sam again this year."

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FT: So she's not getting a refund.

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J: “Last year we paid and went in to work and changed from married to married, deducted as single.”

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FT: Does that make sense to you? Maybe I’m...

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SB: Yup married — or so it would be, she’s just basically changing her exemptions to.

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FT: To married to married deduct as single.

[0:19:09.3]

SB: Yeah, like filing a single. Basically, they would hold more in your pay checks each month, you’re withholding like you’re a single person as supposed to a married person.

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FT: Right. She says:

[0:18:22.0]

J: “I don’t want to deduct more. I hope you can help us.”

[0:18:25.0]

FT: So one, she needs a financial adviser and two, wondering if she can lower her income.

[0:19:30.2]

SB: Yes, any money that you put in to your HSA or your 401(k) is tax deductible. Basically, you're funding those accounts with pretax dollars. So if you make \$100,000 a year and you put \$10,000 into your 401(k), you're only paying taxes on \$90,000. That's a huge way to lower your tax bill, especially for a higher income earner.

So as you're moving from the 15% tax bracket to the 25% tax bracket or the 28 - 33% tax bracket. It becomes even more imperative that you take advantage of those tax deductible accounts. For 401(k)'s the maximum you can put in is \$18,000 per year and this is above and beyond what your employer puts in. Sometimes people will tell me, "Oh Sophia I'm maxing out my 401(k) because they think my employer will only contribute 5% and I'm contributing 5%. I'm contributing the max."

What's great is that you're getting the match that's available to you but there's a huge margin that you could still be contributing to your 401(k) account. She's maxing it out, I would say, take a look at increasing the contributions to your 401(k) and then I love HSA's. I think they're one of the best tax vehicles and even retirement vehicles for millennials.

There's some financial planners that are actually recommending HSA's and using them as another IRA because they have a triple tax benefit. The money you put in to an HSA is pretax dollars. When you use the dollars for medical, qualified medical expenses, you use them tax free and that money can then be invested.

So any money left over stays in the account. Once it's more than a couple thousand dollars, you can invest that money, it grows and when you withdraw it in retirement, you don't have to pay taxes on that as well.

[0:21:34.8]

FT: I didn't know about that third whammy. My gosh.

[0:21:39.2]

SB: It's really pretty exciting, all of the...

[0:21:43.0]

FT: It is the triple threat.

[0:21:44.9]

SB: Yes, and people don't really realize that yet. You can put up to \$3,350 per year in an HSA if you are single and have your own high deductible healthcare plans, so an HDHP. And you can put up to I think it's \$6,750 for a family plan this year. Double check on the number on that.

The other thing is, some employers are contributing to that as well. So they'll actually give you \$500 or a thousand dollars if you choose that plan because it's more affordable for your employer as well. The third part of the question in terms of wanting to know about a financial adviser in Florida, there's a couple different places she can search for that.

So one is, do you want to meet with somebody in person? If you do, you can search by zip code on the NAPFA website, which is NAPFA is the National Association of Personal Financial Advisers. They're a team of fee only financial planners across the country. They do a zip code search, you enter your zip code and then they find a list of fee only financial advisers in your area.

Now, if you want to work with somebody virtually which is how I work with my clients. I have clients all across the country. Some in New York, Texas, Minnesota, California, Florida, Ohio, all over. I think that that could be a good option as well. There's a team of — there's a network called the XY planning network which Farnoosh knows about.

It's great because it's a team of — it's a network of fee only financial planners that are geared towards younger clients. So Gen X and Gen Y clients, they're all across the country. So some of

them you may be able to find somebody in your area or you may decide to search virtually or by the type of financial planner you're looking for that specializes in you. There's people that specialize in engineers or lawyers or young clients or entrepreneurs. So I think those are two really good places to start in terms of looking for a financial planner.

[0:23:55.5]

FT: Yeah, I think what's great about XY Planning too is the financial planners that are associated with that network are pretty flexible, more so than you would find a traditional financial wealth management firms where they are strictly all about the percentage fee of your underlying assets there. At XY Planning, you might find an adviser who says, "You know what, let's just do it by the hour. Let's just do it by the month, let's have a retainer."

It's a lot more affordable and I think they're willing to work with you based on where you're at financially as supposed to this strict fee schedule. Love that XY Planners and you of course Sophia. So good luck, hope that you get to save some money next year, put more money back in your pocket. Okay, we have time for one more question Sophia, are you up for it?

[0:24:40.8]

SB: Yeah, let's do it.

[0:24:41.7]

FT: Okay, this is from Nina and she says:

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N: "Hey Farnoosh, I'm looking to start a 529 for my two year old. I want to know how to find a 529. I know there are plenty to choose from and that you are not restricted by state which makes the choices even more vast. So how do I narrow it down and figure out which is best for us?"

[0:25:00.0]

FT: Well I think if you live in New York you should do that one. Because I think in certain states like New York, there is a tax benefit to contributing to a 529, the contributions can lower your taxable income, so there's that and of course historically, the New York fund has done very well for parents and students who have 529's. But what would you say to Nina? She seems overwhelmed.

[0:25:24.1]

SB: Yeah, I think that you're spot on Farnoosh. The first thing you should check is does the state that you live in offer a state tax deduction or any sort of incentive for choosing your own state's 529 plan? So if they do, I think that you should look at that plan first and take a look at what the fees are, what the tax credit is or what the tax deduction is and check that out because that can really make a big difference in terms of lowering the amount of state taxes that you have to pay.

Especially, like you mentioned, if you're in a state like New York and you're a New York resident, you can get up to \$10,000 deducted on your state taxes by contributing that to a 529 plan which is fantastic. On top of that, I would take a look at — there's a website called Saving for College. And they do a — every year they run different analysis on the 529 plans across the country and they rank them by a bunch of different things and one of them is performance, another one is the fee structure, another one is — there's all this different factors that go in to this list.

But look at the ones that consistently are on some of these top five financial or top five 529 plans. Those types of things because they usually have really low fees in a long term, over the long term have done fairly well. So New York is actually one of my go to 529 plans. I really like that they have the variety of different Vanguard funds that you can invest in and the expense ratio on those funds is extremely low. So that's something that I look for.

I have a lot of clients in New York so I recommend it to those and then I also recommend it to my clients outside of New York that are interested in starting a 529 plan. Virginia has a vest plan that's pretty good, there's a couple of different ones out there that are consistently top

performers or consistently in the top of this list year over year. So I would check that out but make sure that if you do get a state tax deduction that you take advantage of that because that can often outweigh the slightly higher fees you might be planning to go with your own state plan.

[0:27:54.2]

FT: Good for you, good mom for starting young with these 529 plans and you will...

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SB: Absolutely.

[0:27:59.6]

FT: Every little penny will help by the time your child is ready for school. We just started a 529 for Evan, actually a little bit before he was born and it's already got \$20,000 in it and I was telling my husband, "If you were to go to school today, that's significant, that's at least half a semester," and he laughed.

And it's like, "That's kind of sad that it would only pay for half a semester." The point is, we've got to keep saving but it can add up very quickly. Good luck to you and Sophia, thank you so much for stopping by, you have some exciting news to share as well. You have a course that's forthcoming.

[0:28:37.5]

SB: Yeah, I'm really excited Farnoosh because I have been saying for the past year that I really want to build out a course for the Gen Y Planning community. I have been building my newsletter list the past year and just decided that I'm going to put together a course on retirement planning for millennials.

So if anybody is interested in learning more about retirement planning, you can get on the wait list. The course will probably be coming out sometime this summer, but to get on the wait list, if

you go to GenYplanning.com/waitlist, you can put your email address in and we'll keep you up to date on where we are in building out the course and when it's launching and hopefully you can get a really great discount on buying it early as well. Lots of exciting things there.

[0:29:32.7]

FT: Okay. I'm going to check it out. I might even get on that wait list myself.

[0:29:37.0]

SB: Yay!

[0:29:38.0]

FT: Yeah. Sophia, thank you so much, happy tax weekend, hopefully you're all done right? Did you file an extension this year?

[0:29:46.4]

SB: I am, I actually just — no, I don't do mine myself. People ask me that like no, I do everybody else's finances all day, the last thing I want to do is my own taxes on the weekends right? No, I have a great CPA and she just sent me everything electronically and I just electronically signed everything yesterday. So those are all sent in and I'm happy about that. This year they were on time.

[0:30:11.3]

FT: Awesome, we're really happy that you were able to stop by. Don't be a stranger, come back again soon.

[0:30:16.0]

SB: Yay!

[0:30:17.0]

FT: Have a great weekend and everyone, thanks so much for tuning in, if you have a question for an upcoming Ask Farnoosh episode which is every Friday. Head over to Somoneypodcast.com and click on “Ask Farnoosh” and that’s the best way for us to connect. I hope your weekend, whether you’re filing your taxes or not, is So Money.

[END]