Healthy, Wealthy and Wise: Five Tips for Tax Season
By Brian Wilson, CPA

Stay Healthy
With the increasing cost of health care making news headlines, one should consider making a contribution to a health savings account (HSA) if they meet the eligibility requirements. An HSA is a tax-advantaged account set up specifically for the purpose of paying medical expenses of the account beneficiary. An HSA can be set up, either through an employer's cafeteria plan or by the individual on their own. Contributions made through a cafeteria plan are excludable from income and the ones made outside of a work provided plan are tax deductible. Distributions are tax free as long as the money is used for qualified medical expenses. Any of the funds not used to pay medical expenses in the year of contribution carry forward and grow tax deferred until they are needed for future medical costs.

One of the eligibility requirements is that the individual must be covered by a high deductible health plan. And caution – any money taken out of the account that's not used for medical expenses is subject to income tax *and* a 20 percent penalty. However, the penalty is not applicable for distributions after the beneficiary turns 65.

The maximum contribution for 2016 is $3,350 for self-only coverage and $6,750 for family coverage. The limit is increased by $1,000 if the participant turns 55 before the end of the year. If you haven't contributed to an HSA yet, don't worry - contributions can be made until the tax filing deadline, April 18, 2017.

Protect Your Identity
One of the most pervasive issues being dealt with by law enforcement in recent years is identity theft. Criminals are continuously finding new ways to steal personal information to commit crimes including filing fraudulent tax returns and stealing refunds from innocent taxpayers. It is important to use extra caution when using social security numbers, credit cards and other personal information. Some tips:

- Beware of phishing scams – the IRS will not call or email a taxpayer. Calls or emails from people that purport to be from the IRS are probably trying to steal your personal information. The IRS will generally only contact taxpayer through regular mail.
- Use extra caution transmitting personal information in this "digital age" we're living in. For example, do not send emails or attachments containing social security numbers, credit card numbers, bank account information or any other sensitive data over unsecured email. Motivated cybercriminals can hack emails and use that information to commit identity theft. The only safe way to send that type of information electronically is it if it is protected by some type of email/file encryption.
- Protect personal computers with up-to-date anti-virus software.
- **Never** give a social security number or other sensitive information to someone that you do not know and trust.

Plan for Retirement
Take advantage of one or more of the tax deductible or tax deferred retirement plans available. Grow your retirement savings tax free or tax deferred until you reach age 59 and a half (or possibly later). For example:

- Contribute regularly to your employer sponsored 401(K) plans if that is an option. 401(K) plans are especially attractive if offered an employer match (That's free money).
- If you meet the eligibility requirements, consider making a tax deductible contribution to an IRA or a non-deductible contribution to a Roth IRA by the tax filing deadline, April 18, 2017.
- Self-employed individuals have more options to choose from, including a SEP or an Individual-401(K). Contributions limits to a SEP or an individual-401(K) are much higher than some of the other plans, if you meet the eligibility requirements.
- Participants who have turned 50 by the end of the year can make additional "catch up" contributions to most plans.

Please note that most types of retirement plans require that you start taking distributions after you reach age 70 and a half. The minimum distributions are calculated using age-based tables and the value of the account.

Save For the Future
Start saving for your children's or grandchildren's future college expenses by making a contribution to Wisconsin's college savings accounts (Edvest and Tomorrow's Scholar). Contributions of up to $3,100 can be made to these plans until the filing deadline, April 18, 2017 and are deductible for Wisconsin income tax. Contributions to these accounts grow tax free and distributions are also tax free as long as they are used to pay the eligible college expenses of the account beneficiary. The college savings accounts, also referred to commonly as 529 Plans, offer some flexibility in planning.

- The beneficiary designation can be changed at a later date to use the funds for a different member of the family's college expenses.
- Contributions exceeding the maximum deductible amount of $3,100 can be carried forward and deducted in future years.
- In addition to the income tax benefits, 529 Plans can also be used as an estate and gift tax planning tool.

Choose Wisely
Partner with a reputable tax return preparer to ensure success for years to come.

Brian Wilson, CPA is a senior manager and member of the firm's tax team. Since joining the firm in 2004, he has focused on providing accounting and tax services to individuals, trusts and estates. To talk with Brian about your needs, call him at 414-390-1189 or e-mail brianw@ritzholman.com.