

RJ Wealth Advisors Newsletter

Helping to bridge the gap toward financial success

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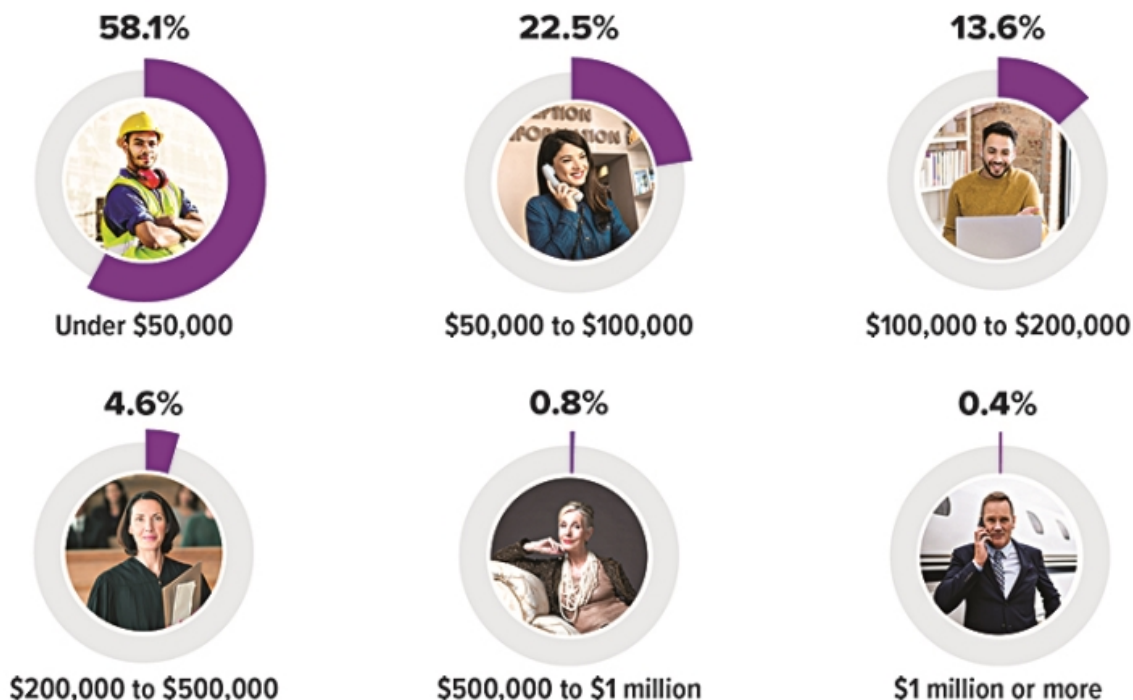
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Where Does Your Income Fit?

The IRS processed more than 164 million individual income tax returns for tax year 2020 (most recent full-year data). Almost three out of five returns showed an adjusted gross income (AGI) under \$50,000, while a little over 1% showed an AGI of \$500,000 or more.



Source: Internal Revenue Service, 2022

Are You Eligible for Any of These College-Related Federal Tax Benefits?

College students and parents deserve all the help they can get when paying for college or repaying student loans. If you're in this situation, here are three federal tax benefits that might help put a few more dollars back in your pocket.

American Opportunity Credit

The American Opportunity tax credit is worth up to \$2,500 per student per year for qualified tuition and fees (not room and board) for the first four years of college. It is calculated as 100% of the first \$2,000 of qualified tuition and fees plus 25% of the next \$2,000 of such expenses.

There are two main eligibility restrictions: the student must be enrolled in college at least half-time, and the parents' modified adjusted gross income (MAGI) must be below a certain level. To claim a \$2,500 tax credit in 2023, single filers must have a MAGI of \$80,000 or less, and joint filers must have a MAGI of \$160,000 or less. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000, and joint filers with a MAGI between \$160,000 and \$180,000. The same limits applied in 2022 (and would be used when completing your 2022 federal tax return).

One key advantage of the American Opportunity credit is that it can be claimed for multiple students on a single tax return in the same year, provided each student qualifies independently. For example, if Mom and Dad have twins in college and meet the credit's requirements for each child, they can claim a total credit of \$5,000 (\$2,500 per child).

Lifetime Learning Credit

The Lifetime Learning credit is worth up to \$2,000 for qualified tuition and fees for courses taken throughout one's lifetime to acquire or improve job skills. It's broader than the American Opportunity credit — students enrolled less than half-time as well as graduate students are eligible. The Lifetime Learning credit is calculated as 20% of the first \$10,000 of qualified tuition and fees (room and board expenses aren't eligible).

Income eligibility limits for the Lifetime Learning credit are the same as the American Opportunity credit. In 2023, a full \$2,000 tax credit is available for single filers with a MAGI of \$80,000 or less, and joint filers with a MAGI of \$160,000 or less. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000, and joint filers with a MAGI between \$160,000 and \$180,000. The same limits applied in 2022.

One disadvantage of the Lifetime Learning credit is that it is limited to a total of \$2,000 per tax return per year, regardless of the number of students in a family who may qualify in a given year. So, in the previous example, Mom and Dad would be able to take a total

Lifetime Learning credit of \$2,000, not \$4,000. Two other points to keep in mind: (1) the American Opportunity credit and the Lifetime Learning credit can't be taken in the same year for the same student; and (2) the expenses used to qualify for either credit can't be the same expenses used to qualify for tax-free distributions from a 529 plan or a Coverdell education savings account.

Student Loan Debt Statistics

Outstanding U.S. student loan debt in 2022:

\$1.745 trillion

Loan source breakdown:

92.7% federal

7.3% private

Number of borrowers with federal student loan debt:

42.8 million

Average federal student loan balance:

\$37,787

Source: EducationData.org, 2022

Student Loan Interest Deduction

Undergraduate and graduate borrowers can deduct up to \$2,500 of interest paid on qualified federal and private student loans during the year if income limits are met. In 2023, a full \$2,500 deduction is available for single filers with a MAGI of \$75,000 or less, and joint filers with a MAGI of \$155,000 or less. A partial deduction is available for single filers with a MAGI between \$75,000 and \$90,000, and joint filers with a MAGI between \$155,000 and \$185,000. In 2022, the income limits were slightly lower: a full deduction was available for single filers with a MAGI of \$70,000 or less, and joint filers with a MAGI of \$140,000 or less; a partial deduction was available for single filers with a MAGI between \$70,000 and \$85,000, and joint filers with a MAGI between \$140,000 and \$170,000. The 2022 limits would be used when completing your 2022 federal income tax return.

If you paid at least \$600 in student loan interest during the year, your loan servicer should send you a Form 1098-E showing how much you paid. If you don't receive a 1098-E, you can still claim the deduction. You just need to call your loan servicer or log in to your online account to find the amount of interest you paid.

Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep Only What You Need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records. Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies. Keep policy and payment documents as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Personal Document Locator

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:



Personal information
(e.g., date of birth,
Social Security number)



Names and phone
numbers of
personal contacts



Online accounts,
with usernames
and passwords



Names and phone numbers of professional service
providers (e.g., banker, physician, attorney,
tax preparer, financial professional)



Location of important
legal and financial
documents

Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase "out with the old, in with the new." For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

Business Owners Should Prepare for Stronger Tax Enforcement

The Inflation Reduction Act of 2022 is providing the IRS with an influx of about \$80 billion to modernize outdated technology and rebuild a depleted workforce, which is expected to improve enforcement to the tune of about \$200 billion over a decade. Treasury Secretary Janet Yellen directed the agency not to use additional resources to increase audit rates for taxpayers making under \$400,000 a year, but the tax returns of high-earning business owners are likely to face more scrutiny than they have in years past.¹

IRS audit rates for individual, partnership, and S corporation income tax returns have fallen since 2010, a trend that could reverse as the IRS ramps up enforcement. Higher audit rates won't appear overnight, but large investments to upgrade technology could eventually help the IRS develop more advanced enforcement methods.

With that in mind, here are some tips to help you avoid unwanted attention from the IRS.

Understand the process. Tax returns are randomly selected, which means you might be audited even if you do everything by the book. However, when your tax return is processed, a computer program screens for anomalies and compares deductions to those of taxpayers with similar incomes. Your return is more likely to be chosen if there's a higher chance that it would result in the collection of additional taxes, but an audit can also be triggered by a red flag on your return

or a simple mistake that leads to additional questions. If selected for a correspondence audit, you may be asked to mail specific information to the IRS. A comprehensive field audit would be conducted at your home, place of business, or accountant's office.

Avoid common traps. Filing an incomplete tax return (with missing forms or schedules) and not making tax payments on time are surefire ways to attract unwanted attention from the IRS. Taking business deductions that are not in line with industry norms, not categorizing transactions consistently from year to year, having a high number of independent contractors relative to full-time employees, and reporting continuous losses are all situations that can look suspicious, even if they are valid.

Step up your record-keeping. Taxpayers are required to keep tax records for at least three years from the date the tax return was filed. Organizing and possibly digitizing your records could make it easier to respond to any requests for information that may come from the IRS — and not being able to provide a requested document could negatively impact your audit results.

A heightened focus on compliance means it may be more important than ever to consult an experienced tax professional for personalized guidance, especially if you receive any type of communication from the IRS.

1) U.S. Treasury Department, 2022

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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