

Financially Speaking

With Trisha Arndt

Tax Returns aren't the only thing due by April 15th

One of the things I find of considerable interest about Verona is the daily operation of the local post office.

I find myself having occasion to visit often, regularly in need of counter service. What strikes me is that I have yet to discover a day of the week or time of day in which there is not a line. My personal experience has been that the staff is quite efficient so the routine wait can only be a reflection of the amount of transactions the people of Verona are involved in that require postal services. Likely it is a result of the booming business community and engaged population.

Earlier this week I had occasion to reflect upon the steady postal traffic as I waited my turn in line and my mind wandered to the upcoming tax deadline. As I imagined how long the line will be on that day, I realized that I may unwittingly find myself in it.

Am I a tax return procrastinator you ask? No, in fact only once in my life did I find myself waiting with my returns for the precious post mark on April 15th and it was an experience I have no wish to repeat.

No, the reason I may find myself waiting in line for a post mark as the deadline approaches isn't because I procrastinate but because a few of my clients do.

You see, the tax filing deadline (which is technically April 16th this year) is also the deadline for prior year contributions to both Traditional and Roth IRAs. Many people wait until their preliminary tax returns are complete before contributing to make sure that they qualify so it is normal for there to be a rush in April.

In reality, I suspect that many people don't realize that it may still be possible to put money away for the 2006 tax year and possibly even qualify for a tax deduction for it. If you've never explored the possibility I urge you to do so. IRAs of both types provide unique tax benefits that can prove quite valuable over the long term.

For 2006 and 2007 the maximum contribution allowed to Traditional or Roth IRAs (or a combination of the two) is \$4000 per person. If you are over 50 during the tax year in question you can contribute an additional \$1000 for a total of \$5000 for the year.

Your ability to contribute is based on your Adjusted Gross Income (typically the last number on the first page of your Federal Form 1040). Being the government they can't of course make these rules simple so I'll just summarize them for you and suggest that you ask your tax preparer or financial representative to help you determine what you qualify for.

Essentially you have to have at least as much earned income (i.e. income from work like W-2 wages or net self employment income) as you contribute and your total Adjusted Gross Income must fall at or below certain cut offs (with the exception of some non-deductible contributions to Traditional IRAs). The cut offs can vary based on several factors including your marital status and whether you actively participate in an employer sponsored retirement plan.

Non-wage earning spouses can often contribute as well. Special rules allow a spouse without earned income to contribute to an IRA as long as the income guidelines for the couple are met.

If you are one of the many small business owners out there, and I know there are lots of you in Verona, there may still be time for your business to contribute towards your retirement – and get a tax deduction – for 2006 as well. Certain types of retirement plans, such as Simplified Employee Pension Plans (SEPs) can be both established and funded up until your tax filing deadline, with extensions. Your tax preparer should be able to tell you how much you could contribute and what the tax benefit would be.

And, while it is too late to go back and change salary deferral contributions to employer plans for 2006, now is a good time to review your contribution levels for 2007. The maximum annual contribution to most contributory employer plans (401k, 403b, 457, etc) is indexed up to \$15,500 and those over 50 can do an additional \$5000 for the year.

So as you gather your tax documents consider jotting yourself a note to explore whether an IRA may make sense for you. And if you find yourself in line on April 16th don't feel bad, I'll probably be there with you.

If you see me around town please feel free to stop me and ask a question or mention a topic that you would like to see in a future issue. Or feel free to e-mail me at trisha@wealthstrategies.biz. Ideally I would love for every column to be an answer to a reader's request so I look forward to hearing more from you.

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