Volume 23 Number 2
February 2015

SCS Connect*ion*

Southern Capital Services, Inc.

Monthly Connection:

- Women's Declutter Event *(Be sure to RSVP asap!)*
- IRA—Present & Future
- 529 Plans for Private Colleges

"They say love is the best investment; the more you give, the more you get in return."

-Audrey Hepburn-

What Do I Need to Know About my IRA for Tax Season and Beyond?

by Eric Nager, CRPS®

April 15, the tax filing deadline, is creeping up on us. Here are four things you need to know regarding your Individual Retirement Accounts (IRA) for this year:

1. **How much can I contribute to my account?**

The traditional and Roth IRA contribution limits for both 2014 and 2015 are $5,500 if you are under age 50. If you are age 50 or more, you may contribute an additional $1,000 "catch-up" amount for a total of $6,500. For contribution purposes, you are considered to be 50 for the entire year in which you turn 50. In other words, if you turned 50 in December of 2014, you may contribute $6,500 for that tax year. Note that you must have earned income in order to contribute to an IRA and cannot contribute in excess of what you earn.

2. **What is the deadline for my 2014 contributions?**

The deadline for traditional and Roth IRAs is April 15, meaning that your contribution needs to be IN your account at TD Ameritrade by that date. *A postmark prior to April 15 does not count!* If you are sending us a contribution check between now and April 15, please note on the memo line if it is for tax year 2014 or 2015. Other types of IRA accounts, like an SEP, allow for contributions to be made up to the tax filing deadline that includes extensions; but for traditional and Roth IRAs, April 15 is it.

3. **What if I am covered by a retirement plan through my employer?**

According to the website www.irs.gov, you could still be eligible to contribute to a traditional IRA even if you are covered by a retirement plan at work. If you file taxes singly or as head of household, the tax year 2014 income threshold is $60,000. If you earned less than that, you may also contribute to a traditional IRA and it will be fully deductible. If you earned between $60,000 and $70,000, you could make a partially deductible contribution, and over $70,000 you cannot take a deduction. For taxpayers who are married filing jointly, you can contribute if you earned $96,000 or less and make a partially deductible contribution between $96,000 and $116,000. For more than $116,000 there is no deduction, and these numbers are adjusted upward slightly for 2015. If you cannot make a traditional IRA contribution under these circumstances, you can make a Roth contribution. As always, if you have specific questions about tax deductibility, consult your tax professional. If you do not have one, we can give referrals.

4. **How much do I need to take out of my IRA this year?**

For those who turn age 70.5, you must take an annual Required Minimum Distribution (RMD) from your traditional IRA. TD Ameritrade, as custodian of client accounts, calculates your RMD for you. We make sure our clients take their RMD's before the end of the year in order to avoid penalties. The penalty for not taking an RMD is 50% of how much you were required to withdraw. If you own an inherited, or beneficiary IRA, you still may be required to take an RMD; we have to call TD on your behalf to get that calculated for you. [NOTE: If you hold IRAs anywhere else, you must take that RMD as well.]

Did You Know there is a 529 Plan for Private Colleges?

by Eric Nager, CRPS®

We have written in the past about 529 plans that help parents prepare financially for their children's college education. There are two types of 529 plans: savings plans and prepaid plans. Savings plans operate somewhat like a 401(k) retirement plan in the sense that most offer a family of mutual funds from which to select, and the value of the account fluctuates with the performance of the investments.

Contributions are not federally tax deductible, but they grow tax-free and can be withdrawn tax-free for qualified educational expenses. Some states with state income tax, like Alabama, allow contributions to be state tax deductible if you are investing in the plan offered by that state.

The other type of 529 plan is a prepaid plan. The idea behind the prepaid plan is that college education costs have been increasing faster than the cost of living for many years, so it can make sense to lock in tomorrow's prices today. Parents or grandparents can purchase a plan that covers all or a portion of future tuition costs. There are two types of prepaid plans: state plans and private college plans.

The state plans are designed to cover tuition for in-state public institutions. If your child ends up going to an out-of-state or private school, the prepaid plan can be used for that although with no guarantee of covering full tuition.

The private college plan may be used to prepay tuition at private colleges where your children may choose to attend. More than 270 colleges from around the country participate in a program that allows parents to purchase prepaid tuition at any participating school at today's rates. Since private colleges tend to be more expensive than public ones, the private school plan allows you to purchase tuition certificates that are good for 30 years from the date of purchase, guaranteed. The website www.privatecollege529.com lists all the participating schools.

One advantage to 529 plans is they are transferrable to other family members. For example, if you establish a 529 plan in the name of one of your children and that child wins a scholarship, the 529 plan can be used for a different child. The transferability also goes across generations, such that it can be used for a grandchild as well.

A drawback to 529 plans is that they must be used for educational expenses. If you withdraw funds from a plan for any other purpose, there is a tax penalty. Therefore, a risk to the savings plan is saving more than is needed.

Later this year we plan to offer an educational seminar to our clients about preparing for college education. If you are considering a 529 plan or just thinking about funding your children's college education in general, please make an appointment with us and we'll be happy to discuss your situation.

Don't Forget the Client Event for our Ladies!

The first event this year is for our lady clients which is being held this month on February 26. We are very excited to have secured the Lake Forest Yacht Club as the venue with its beautiful view of Mobile Bay.

Upon arrival, the ladies will begin with a breakfast buffet followed by a financial talk from our own Wendy Nelson Bailey, CFP® of Southern Capital Services, Inc. Then our guest speaker, Virginia Barkley, author from New Orleans, will give a talk based on her book *Clutter Busting for Busy Women*. All attendees will receive an autographed copy of her book for free. If you haven't signed up for this event yet, call us right away at 251-626-1140. Again, it will be held on Thursday, February 26th from 9:00am to 11:00am.

We hope those of you who attend enjoy it. Feel free to let us know of other topics you would like us to build future events around.

Check out our blog at www.southerncapitalservices.com for an announcement about the upgrades to the TD Ameritrade website of which clients can log on to.