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Dear clients:

With the extended filing season behind us, the remaining months of 2024 are an excellent time to begin planning for the upcoming filing season. Please contact our office if there were any material changes in your tax situation this year, or if there are related matters you would like to discuss.

We would be happy to assist in preparing tax estimates and projections and would welcome conversations regarding year-end tax planning items.

For the upcoming filing season, our office will continue our effort to reduce our consumption of paper and improve the processing time of tax returns. As such, client organizers and engagement letters will be delivered to you electronically, as will your client copies of tax returns.

Thank you for your continued trust in our office and for the opportunity to serve you.

Sincerely,

Aaron Bagby
Kramer, Jensen & Bagby, LLC

Don't Leave Money on the Table: Essential Tax Credits You Might Be Missing

Article Highlights

- Refundable vs. Non-Refundable
- Credit Carryovers
- Earned Income Tax Credit (EITC)
- Child Tax Credit (CTC)
- American Opportunity Tax Credit (AOTC)
- Lifetime Learning Credit (LLC)
- Saver’s Credit
- Child and Dependent Care Credit
- Adoption Credit
- Residential Clean Energy Credit
- Premium Tax Credit (PTC)
- New Clean Vehicle (Electric Vehicle (EV)) Credit
- Previously Owned Clean Vehicle (EV) Credit
- Credit for the Elderly or Disabled
- Foreign Tax Credit
- General Business Credit

Tax preparers often encounter clients who are confused about the various tax credits available to them. Understanding these credits can significantly impact your tax liability and, in some cases, result in a refund. This article aims to demystify individual tax credits, explain the difference between refundable and non-refundable credits, and discuss credit carryovers. By the end, you should have a clearer understanding of how to leverage these credits to your advantage.

What Are Tax Credits? Tax credits are amounts that reduce the tax you owe on a dollar-for-dollar basis. Unlike deductions, which lower your taxable income, tax credits directly reduce the amount of tax you owe. There are two main types of tax credits: refundable and non-refundable.

Refundable vs. Non-Refundable Tax Credits

- *Refundable Tax Credits*: These credits can reduce your tax liability to zero and result in a refund if the credit amount exceeds your tax liability. In other words, if your tax liability is $400 and you have a refundable credit of $1,000, you will receive a $600 refund. This is where many individuals who are not required to file a tax return miss out on substantial refundable tax credits intended for those with low incomes.

- *Non-Refundable Tax Credits*: These credits can reduce your tax liability to zero but cannot result in a refund. If your tax liability is $400 and you have a non-refundable credit of $1,000, your tax liability will be reduced to zero, but you will not receive a refund for the remaining $600.

Credit Carryovers - Some non-refundable credits come with carryover provisions, allowing you to apply any unused portion of the credit to future tax years. This can be particularly beneficial if you have a low tax liability in the current year but expect higher liabilities in future years.

Common Individual Tax Credits - Let's delve into some of the most common individual tax credits, indicating whether they are refundable or non-refundable and if they include carryover provisions.

- *Earned Income Tax Credit (EITC)* - The Earned Income Tax Credit (EITC) is designed to benefit low to moderate-income working individuals and families. The credit amount varies based on your income and the number of qualifying children you have. For the 2024 tax year, the maximum credit is $7,830.

Type: Refundable

- *Child Tax Credit (CTC)* - The Child Tax Credit (CTC) provides up to $2,000 per qualifying child under the age of 17. Up to $1,400 of this credit is refundable, meaning you can receive a refund even if you do not owe any tax. The refundable portion is known as the Additional Child Tax Credit (ACTC).

Type: Partially Refundable

- *American Opportunity Tax Credit (AOTC)* - The American Opportunity Tax Credit (AOTC) is available for the first four years of post-secondary education. The maximum credit is $2,500 per eligible student, with 40% of the credit (up to $1,000) being refundable. The credit covers tuition, fees, and course materials.

Type: Partially Refundable

- *Lifetime Learning Credit (LLC)* - The Lifetime Learning Credit (LLC) provides up to $2,000 per tax return for qualified higher-education expenses. Unlike the AOTC, the LLC is non-refundable, meaning it can reduce your tax liability to zero but will not result in a refund. There is no limit on the number of years you can claim this credit.

Type: Non-Refundable

- *Saver's Credit* - The Saver's Credit is designed to encourage low to moderate-income individuals to save for retirement. The credit is worth up to $1,000 ($2,000 for married couples filing jointly) and is non-refundable. It can be claimed for contributions to retirement accounts such as IRAs and 401(k)s.

Type: Non-Refundable

- *Child and Dependent Care Credit* - The Child and Dependent Care Credit helps offset the cost of childcare or care for a dependent while you work or look for work. The credit is worth up to 35% of qualifying expenses, with a maximum of $3,000 for one qualifying individual or $6,000 for two or more. This credit is non-refundable.

Type: Non-Refundable

- *Adoption Credit* - The Adoption Credit provides financial assistance for qualified adoption expenses. For the 2024 tax year, the maximum credit is $16,810 per child. This credit is non-refundable but can be carried forward for up to five years if the credit exceeds your tax liability.

Type: Non-Refundable with Carryover

- *Residential Clean Energy Credit* - The Residential Clean Energy Credit is available for the installation of qualified energy-efficient improvements, such as solar panels and solar water heaters. The credit is worth 30% of the cost of the improvements and is non-refundable. Unused portions of the credit can be carried forward to future tax years.

Type: Non-Refundable with Carryover

- *Premium Tax Credit (PTC)* - The PTC helps eligible individuals and families cover the cost of premiums for health insurance purchased through a government Health Insurance Marketplace. The credit amount is based on your family income and the cost of the premiums. This credit is refundable, meaning you can receive a refund if the credit exceeds your tax liability.

Type: Refundable

- *New Clean Vehicle Credit* - Commonly referred to as the Electric Vehicle (EV) Credit, the New Clean Vehicle Credit is available for the purchase of qualifying all electric, plug-in hybrid, and fuel cell vehicles. Limits apply based your income and the manufacturer's suggested retail price of the vehicle. The credit amount varies based on the vehicle's battery capacity but can be up to $7,500. In lieu of claiming the credit on your tax return, you may be able to transfer the credit to the dealer at the time of purchase, which could reduce the vehicle's cost or your downpayment.

Type: Non-Refundable with no carryover

- *Previously Owned Clean Vehicle (EV) Credit* - The Previously Owned Clean Vehicle Credit is designed to incentivize the purchase of used electric vehicles. The credit is up to $4,000 or 30% of the vehicle's price, whichever is less. As with the New Clean Vehicle credit, there are caps on the income of the purchaser and the cost of the vehicle, but the amounts are different. This credit is non-refundable with no carryover.

Type: Non-Refundable with no carryover

- *Credit for the Elderly or Disabled* - The Credit for the Elderly or Disabled is available to low income individuals who are 65 or older or who are retired on permanent and total disability. The maximum credit is $7,500, but it is non-refundable, meaning it can only reduce your tax liability to zero.

Type: Non-Refundable

- *Foreign Tax Credit* - The Foreign Tax Credit is available to individuals who pay taxes to a foreign government on income that is also subject to U.S. tax. This credit is non-refundable but can be carried back one year and forward up to ten years if it exceeds your tax liability.

Type: Non-Refundable with Carryover

- *General Business Credit* - The General Business Credit is a collection of various credits available to businesses, including sole proprietorships, that are passed through to the individual. These credits are non-refundable but can be carried back one year and forward up to twenty years.

Type: Non-Refundable with Carryover

This firm's goal is to help you navigate the complexities of the tax code and maximize your tax benefits. If you have any questions or need assistance with your tax return, please do not hesitate to contact this office. Together, we can ensure you take full advantage of the tax credits available to you.

Maximizing Your Retirement Savings: Strategies for Late Starters

As a baby boomer, you may find yourself approaching retirement with less savings than you'd hoped. Whether due to economic fluctuations, personal circumstances, or simply the demands of life, many late starters face this challenge. However, it's never too late to take action. Here are effective strategies to maximize your retirement savings and catch up on your financial goals.

1. Assess Your Current Financial Situation

Start by taking a comprehensive look at your finances. Calculate your net worth by subtracting your liabilities from your assets. Understand where you stand regarding retirement savings, debts, and other financial obligations. This assessment will provide a clear picture of your financial health and help you set realistic goals.

2. Create a Realistic Budget

Budgeting is crucial for anyone looking to save more, especially late starters. Track your income and expenses to identify areas where you can cut back. Consider the 50/30/20 rule: allocate 50% of your income to necessities, 30% to discretionary spending, and 20% to savings. This will help you redirect funds towards your retirement savings without drastically altering your lifestyle.

3. Maximize Contributions to Retirement Accounts

Take full advantage of retirement accounts like 401(k)s and IRAs. If your employer offers a matching contribution, aim to contribute at least enough to receive the full match—it's essentially free money. For 2024, you can contribute up to $23,000 to a 401(k) or $7,000 to an IRA. Maxing out these contributions can significantly boost your savings over time.

4. Explore Catch-Up Contributions

If you're age 50 or older, you're eligible for catch-up contributions, which allow you to contribute extra amounts to your retirement accounts. For 401(k)s, you can add an additional $7,500, while IRAs allow for an extra $1,000. This is a powerful way to increase your savings as you near retirement.

5. Diversify Your Investments

Investment diversification is essential for managing risk and optimizing growth. As you age, consider adjusting your asset allocation to include a mix of stocks, bonds, and other investments. While you may want to lean towards more conservative investments as retirement approaches, having a portion of your portfolio in growth-oriented assets can help offset inflation and increase your savings over time.

6. Consider Part-Time Work or Side Gigs

If your current income isn't sufficient to boost your retirement savings, consider part-time work or side gigs. This can provide extra cash flow that you can funnel directly into your retirement accounts. Freelancing, consulting, or even seasonal work can be excellent ways to earn additional income while allowing you to maintain flexibility.

7. Reduce Debt

Reducing or eliminating debt should be a priority, especially high-interest debt like credit cards. The more you can reduce your liabilities, the more you can allocate towards savings. Consider strategies such as the snowball or avalanche method to pay down debt systematically, freeing up more cash for your retirement.

8. Leverage Home Equity

If you own a home, consider leveraging your home equity to boost your retirement savings. Options like a home equity line of credit (HELOC) or a reverse mortgage can provide funds that you can invest in your retirement. However, proceed with caution and consult a financial advisor to ensure you understand the implications.

9. Stay Informed About Social Security Benefits

Understanding Social Security benefits is crucial for retirement planning. If you're behind on savings, your Social Security income may play a larger role in your retirement strategy. Consider factors such as the optimal age to begin receiving benefits and how working longer can affect your benefits. Delaying benefits can lead to higher monthly payouts, which can significantly impact your overall retirement income.

10. Consult a Financial Advisor

Navigating retirement planning can be complex, especially if you're a late starter. A financial advisor can help you create a personalized retirement strategy, considering your unique circumstances, risk tolerance, and goals. They can provide valuable insights on investment options, tax strategies, and how to maximize your retirement income.

It's Never Too Late to Start Saving

While starting late may feel daunting, there are numerous strategies available to help you catch up on your retirement savings. By assessing your financial situation, maximizing contributions, and making informed decisions, you can build a more secure financial future. Remember, the sooner you start taking action, the more time your savings have to grow.

Ready to Boost Your Retirement Savings?

Contact our office today to speak with an advisor who can help you create a personalized tax-optimized retirement strategy. Let us guide you toward maximizing your retirement savings and achieving your financial goals.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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