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FINANCIAL GROUP

WEALTH MANAGEMENT & FINANCIAL PLANNING

# EYE ON MONEY

JAN  
FEB  
2015



## 5 TIPS TO HELP BOOST YOUR RETIREMENT SAVINGS

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20 TAX CREDITS AND DEDUCTIONS  
YOU MAY BE OVERLOOKING

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HOW TO HELP PROTECT YOUR  
PORTFOLIO FROM  
INFLATION

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## THREE THINGS TO KNOW ABOUT CREDIT REPORTS

- 1 **You are entitled to a free annual credit report.** Upon request, each of the three major credit reporting companies—Equifax, Experian, and TransUnion—will provide you with a free credit report every 12 months through the Annual Credit Report Request Service. You can order your report online at [annualcreditreport.com](http://annualcreditreport.com), by phone at 1-877-322-8228, or by mail at Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You can order all three reports at the same time, or stagger your requests so that you review one report every few months.
- 2 **Reviewing your reports can help protect your credit rating.** Reviewing your reports gives you an opportunity to check for mistakes and signs of fraud, both of which have the potential to damage your credit rating. Be on the lookout for credit accounts that you did not open, inquiries from creditors that you do not recognize, and addresses where you never lived.
- 3 **If you spot an inaccuracy, notify the credit reporting agency and the company that provided the information to them.** Both parties will investigate the matter. The credit reporting agency will notify you of its findings. If you suspect fraud, have a fraud alert placed on your credit report so that it is more difficult for someone to open new accounts in your name. You only need to contact one of the three agencies to place a fraud alert; that agency will contact the others. ■

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## Creating an Emergency Fund

**THE THING ABOUT EMERGENCIES IS** that you don't see them coming. One minute everything is fine, and the next minute jobs are lost, medical bills build up, and other major expenses appear out of nowhere. Although you do not know when and how an emergency may occur, it is important to prepare financially for the possibility. Unless you have money set aside to deal with it, you may find yourself running up large credit card balances or draining your retirement accounts, both of which will only exacerbate your financial dilemma. An emergency fund—that is a stash of readily available cash—is a much better alternative.

### How much to save.

The amount to save in an emergency fund is usually based on how many months of living expenses you may need to tide you over if you lose your job. 3 months? 6 months? 12 months? According to the U.S. Bureau of Labor Statistics, the average duration of unemployment was 32.7 weeks, or just under 8 months, as of October 2014.

Keep in mind, though, that 32.7 weeks is simply the national average, and your experience will differ. For this reason, it is important to consider how long it may take someone in your field and at your level of seniority to find a new job. For example, while someone in a field where jobs are plentiful may find new work in less than 8 months, it may take longer

than 8 months for someone in a more competitive field or who is higher up the career ladder.

It is also a good idea to consider your other sources of income. For example, working couples who can rely on the other person's paycheck if their own paycheck stops may be comfortable with fewer months' worth of living expenses in savings than a one-paycheck family.

Please consult your financial advisor for help in estimating how much you should save for emergencies in your circumstances.

### Where to save.

Choose an account that is low-risk and easily accessible. FDIC-insured money market accounts and savings accounts are good choices. A series of CDs or U.S. Treasury bills timed to mature at regular intervals can also be a good choice and may pay a bit more interest.

Stocks are generally not a good choice for an emergency fund due to their volatility. If an emergency occurs when stock prices are down, you will be stuck selling at a loss.

Retirement accounts are not a good location for an emergency fund. Withdrawals from these accounts are generally taxable and may be subject to an additional 10% early withdrawal penalty. Plus, withdrawals or loans from your retirement account can throw your retirement planning off track.

### When to tap it.

Ideally, an emergency fund should be tapped only for true emergencies, such as a job loss, major medical bills, or some other wholly unexpected event. If you tap it for, say, a new car or college tuition, you risk being without sufficient funds if and when a true emergency occurs.

To help avoid dipping into your emergency fund for non-emergencies, you may find it helpful to keep your emergency fund in a separate account from your other savings and investments.

And if you do use money from your emergency fund, make it a priority to build the fund up again as soon as you are back on your feet. ■

**If you have put off creating an emergency fund, it's time to get going! Ask your financial advisor about how much money you should set aside for emergencies.**



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## How do mutual funds and ETFs compare?

Although both offer a professionally managed basket of investments and a degree of diversification, mutual funds and ETFs differ in important ways.

### TRADING

Exchange-traded funds, or ETFs, offer investors greater control over the pricing and timing of a trade. Why is that? ETFs trade like stocks, meaning that they are priced and traded on stock exchanges continually throughout the trading day. This makes it possible for you to buy or sell shares at the current market price at any time during the trading day. Plus, you can use limit orders to help define the share price you are willing to pay or receive.

Mutual funds work differently. Instead of trading on exchanges, mutual fund shares are purchased or redeemed from the fund itself and are priced once a day based on the fund's net asset value at the close of the trading day. As a result, you will not know the price of your mutual fund shares until after the market closes. Limit orders cannot be used.

### TRANSACTION COSTS

With ETFs, you generally pay a commission when you buy or sell shares, as well as a bid-ask spread. The bid-ask spread is the difference in price between what sellers are willing to accept and what buyers are willing to pay.

With mutual funds, the transaction costs can take different forms. Some mutual funds have a sales charge, known as a load, that is applied when you purchase or sell shares. "No-load" mutual funds do not have this sales charge, but may have other transaction fees, such as a purchase or redemption fee.

### MINIMUM INVESTMENT

While many mutual funds require an initial investment of \$1,000 or more, ETFs do not require a minimum initial investment. It is possible to purchase a single share of an ETF. (Brokers may require an initial minimum deposit to open an account.)

### TAXES

If mutual funds and ETFs are held in a taxable account, the dividends and capital gains that they distribute to you, as well as any capital gains you realize selling shares, are taxable. ETFs are generally more tax efficient, however, because they tend to distribute less capital gains than mutual funds. Why the difference? Mutual funds typically sell securities (which can generate capital gains) to handle shareholder redemptions; ETFs generally do not. ■

#### PLEASE NOTE:

*Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.*

*Diversification does not ensure a profit or protect against loss in declining markets.*

**Please consult your financial advisor for help in developing and implementing an investment plan.**



## Employment Taxes and Your Household Employees

**DO YOU PAY A NANNY, HOUSEKEEPER,** or other household employee? If so, you may be responsible for their employment taxes, such as Social Security tax, Medicare tax, and federal unemployment tax, if their wages exceed certain amounts.

You generally must withhold and pay Social Security and Medicare taxes if you paid a household employee cash wages of \$1,900 or more in 2014. And if the cash wages you paid all of your household employees totaled \$1,000 or more in any calendar quarter in 2014, you generally must pay federal unemployment tax. Your state may also have its own employment taxes, which you should explore with your tax advisor. Here's the deal on federal employment taxes.

Household employers are only responsible for paying federal employment taxes for their household employees if wages meet or exceed the \$1,900 or \$1,000 thresholds. Household employees include workers, such as babysitters, nannies, housekeepers, and yard workers. According to the IRS, the worker is your employee if you can control not only what work is done, but how it is done.

You are not responsible for paying employment taxes for independent contractors, such as plumbers or electricians, who provide services at your home and control how they do their own work. Independent contractors are generally self-employed and take care of employment taxes themselves.

You also do not generally have to withhold or pay Social Security or Medicare taxes if your household employee is your spouse, your parent, your child under the age of 21, or an employee under the age of 18. (Exceptions apply.) Nor do

you have to count the wages that you pay to your spouse, your parent, or your child who is under the age of 21 for federal unemployment tax purposes.

If you are required to pay Social Security and Medicare taxes, you pay the employer's share out of your own pocket and withhold the employee's share from their cash wages, unless you want to pay the employee's share out of your own pocket also. Each share generally equals 7.65% of cash wages. Here's how they are calculated: The employer's share equals 6.2% of the first \$117,000 of cash wages (in 2014) for Social Security tax and 1.45% of all cash wages for Medicare tax. The employee share that you withhold from his or her wages is figured the same way, using the same rates. You must also withhold a 0.9% Additional Medicare

Tax from wages in excess of \$200,000 that you pay an employee.

Federal unemployment tax is equal to 6% of the first \$7,000 of an employee's cash wages, although you may be able to claim a credit that reduces the percentage to 0.6%. This tax is paid out of your own pocket.

In addition to withholding employment taxes, there are other tax-related tasks you must handle, such as keeping good records, preparing and distributing Wage and Tax Statements (Form W-2) to your employees and the Social Security Administration, and preparing and filing the Household Employment Taxes schedule (Schedule H) with your federal tax return. If these tasks are unfamiliar to you, please consult your tax advisor for advice and assistance in meeting your obligations as a household employer. ■

### Household Employer's Timeline

SOURCE: IRS PUBLICATION 926

#### When you hire a household employee

Find out if the person can legally work in the United States.  
Fill out the U.S. Citizenship and Immigration Services Form I-9, Employment Eligibility Verification for your records.

#### When you pay your household employee

Withhold the employee's share of Social Security and Medicare taxes from their cash wages.  
Withhold federal income tax if the employee requests it and you agree to it.  
Keep records.

#### By February 2, 2015

Get an employer identification number (EIN). You can apply for one on the IRS website, [www.IRS.gov](http://www.IRS.gov).  
Prepare and give your employees Copies B, C, and 2 of Form W-2, Wage and Tax Statement.

#### By March 2, 2015

Send Copy A of Form W-2 to the Social Security Administration. You have until March 31, 2015 if you file the form electronically.

#### By April 15, 2015

File Schedule H, Household Employment Taxes with your federal tax return and any taxes that are due.

# 5 Tips to Help Boost Your Retirement Savings

## **Make a plan.**

Identifying how much you may need to save for retirement and then creating a financial plan for moving toward that goal can help you boost your retirement savings. How so?

A plan with a realistic goal may be just the motivation you need to keep your income flowing into your retirement accounts.

Plus knowing how much you need to save each year may help you avoid spending too much on your current lifestyle to the detriment of your retirement lifestyle.

And having a clear investment strategy may help you avoid stashing too much cash in low-interest savings accounts, whose returns may be insufficient for your needs.

The first step is to estimate how much you may need to save each year to support the retirement you envision. While there are plenty of calculators on the Internet that offer estimates, the better choice is to consult your financial advisor, who can provide more than just a number to shoot for. After reviewing your financial situation and goals, your advisor can provide a customized plan, complete with investment strategies, that integrates with your other financial and estate goals. Plus, your advisor can generally provide investment management, as well as help you monitor your progress, recommending adjustments to your plan as needed.

## **Save more.**

One sure-fire way to boost your retirement savings is to increase the amount you save—no surprise there. But what may be surprising is that even a small bump up in the amount that you save each month has the potential to have a big impact on your retirement savings over time.

To give you a few hypothetical scenarios, a \$50 bump up in your monthly contributions may increase your savings by about \$42,000 after 30 years, assuming a 5% annual return in a tax-deferred account. Bumping up your monthly contribution by \$1,000 may increase your savings by about \$832,000. And if your actual annual return turns out to be 7% instead of 5%, that \$1,000 increase may boost your savings by about \$1.2 million after 30 years.

Keep in mind that these amounts are simply an illustration of what may happen over time. Your results will vary from these examples and will depend on your actual returns. The point remains, however, that even small increases in the amount you save and invest for retirement have the potential to grow exponentially over time, thanks to the effect of compound earnings.

How can you increase the amount you save each month? Start by identifying ways to cut back on your spending so that more money is available to be saved. Some people find that tracking

their spending for a month is helpful in identifying expenses that can be trimmed.

As you earn more money, increase the amount you save. If you receive a bonus, invest it rather than spend it. Consider picking up a side job to generate more income that can be saved. Once you finish with tuition and mortgages, divert the income you had been using for those expenses into your retirement savings. And whenever possible, automate your contributions so that they are automatically deposited into the appropriate retirement, savings, and investment accounts. Doing this minimizes the temptation to spend your income in other ways and avoids the hassle of making the deposits yourself.

## **Minimize taxes on your savings.**

When investing for retirement, it is not just how much your investments earn, but how much you get to keep after taxes that matters. Here are a few ideas that may help boost your after-tax returns.

First, take advantage of tax-favored retirement accounts, such as your retirement plan at work and individual retirement accounts (IRAs) that you can invest in on your own. With these accounts, investment earnings are not taxed until they are withdrawn from the account, which enables them to compound faster than they would in a taxable account where earnings are taxed annually.

## Increasing the amount you save may pay off handsomely in retirement.

This is a hypothetical illustration of how much your savings may grow over time if you increase the amount you save each month. The potential returns assume the savings are in a tax-deferred account. Your result will vary from what is shown here and will depend on your actual rates of return.

Increase in monthly contribution ▼	AFTER 20 YEARS		AFTER 30 YEARS		AFTER 40 YEARS		◀ Annual return
	5%	7%	5%	7%	5%	7%	
	<b>\$50</b>	\$20,552	\$26,046	\$41,613	\$60,999	\$76,301	
<b>\$100</b>	\$41,103	\$52,093	\$83,226	\$121,997	\$152,602	\$262,481	
<b>\$500</b>	\$205,517	\$260,463	\$416,129	\$609,985	\$763,010	\$1,312,407	
<b>\$1,000</b>	\$411,034	\$520,927	\$832,259	\$1,219,971	\$1,526,020	\$2,624,813	



Higher contribution limits for some retirement plans may enable you to contribute more in 2015.

	2014	2015
<b>Traditional and Roth IRA</b>		
Under age 50	\$5,500	\$5,500
Age 50 or older	\$6,500	\$6,500
<b>401(k), 403(b), and most 457 plans</b>		
Under age 50	\$17,500	\$18,000
Age 50 or older	\$23,000	\$24,000
<b>SIMPLE IRA and SIMPLE 401(k)</b>		
Under age 50	\$12,000	\$12,500
Age 50 or older	\$14,500	\$15,500

*Not all workplace retirement plans permit catch-up contributions for individuals age 50 or older.*

*Additional limits may apply to the amount you may contribute.*

You have until April 15, 2015 to contribute to a traditional or Roth IRA for 2014.

Plus, when investing in a traditional retirement plan at work, such as a traditional 401(k) plan, you can postpone federal and state income taxes on the amounts you contribute until you withdraw the money from the plan. For example, let's say you are in the 35% federal tax bracket and contribute \$10,000 to your 401(k) plan this year. Your \$10,000 contribution reduces your taxable income for the year by \$10,000 and results in a current federal tax savings of \$3,500. That extra \$3,500 in your pocket may make it possible for you to contribute more to your retirement savings this year than you otherwise would. Investing in a traditional IRA may also provide you with a current tax savings if you are eligible to deduct contributions.

For some people, investing in a tax-free Roth account, such as a Roth 401(k) or Roth IRA, offers even greater potential to boost after-tax returns. With a Roth account, there is no tax break on the money you contribute, but earnings grow tax-free and can be withdrawn tax-free, as long as certain withdrawal requirements are met. You can withdraw your Roth contributions tax-free at any time. The Roth approach of "paying tax now rather than later" tends to favor individuals who have a long life ahead of them to reap the potential benefits of tax-free compounding or who suspect that they may be in a higher tax bracket in retirement. Keep in mind, though, that Roth accounts are only an option for individuals whose employers offer a Roth plan or whose income is under the limits to contribute to a Roth IRA.

In addition to using tax-favored retirement accounts, investing tax efficiently within your taxable brokerage accounts can help boost your after-tax returns. Strategies for investing tax efficiently include holding out for long-term capital gains rather than settling for more heavily taxed short-term capital gains, using

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losses to offset capital gains on your tax return, and holding less heavily taxed investments, such as tax-managed stock funds and tax-exempt bonds, in your taxable accounts.

Your financial advisor can help you determine how to deploy your investments among workplace plans, IRAs, and taxable accounts with an eye toward minimizing taxes.

### **Find the right asset mix.**

Investing for retirement has its ups and downs. To help minimize the impact of market downturns on your retirement savings, it is important to spread your investments among asset classes—stocks, bonds, and cash—that respond differently to changing market conditions. By spreading your investments around, stronger returns from one asset class can help offset weaker returns from another so that your overall return is higher, or your loss less steep, than if all of your money was invested in the asset class with the lowest returns.

The mix of assets that you choose is known as your asset allocation, and is usually expressed as percentages—for example, 60% stocks, 30% bonds, and 10% cash. The percentages that are right for you will depend on how much time remains before you will need your savings, your tolerance for risk, and the amount you need to save for retirement. The key is to choose a mix that offers you the strongest probability of reaching your goal, within your time frame, at a level of risk that is acceptable to you. It is important to remember, however, that although asset allocation can help cushion losses, it does not ensure a profit or guarantee against loss in declining markets.

Your financial advisor can help you determine an appropriate allocation for this stage of your life, as well as adjust your allocation as the time nears when you will need your savings. Typically,

investors shift to more bonds and cash and fewer stocks as they approach retirement.

### **Rebalance your portfolio.**

Due to performance differences among stocks, bonds, and cash, your asset allocation will eventually stray from the original percentages you chose. When this happens, your portfolio either has more risk or less potential for reward than you originally intended. For example, if the stock market has been on a tear recently, your allocation may have shifted from 60% stocks/40% bonds to 65% stocks/35% bonds, resulting in more risk than you originally planned on.

When your actual allocation strays too far from your target allocation, restoring it to the target allocation can help keep your investment plan on track. The process of restoring it is known as rebalancing and can be achieved in a couple of ways.

You can sell some of the over-weighted asset class and use the proceeds to buy more of the under-weighted asset class, or you can invest new money in the under-weighted asset class until your target allocation is restored. If you choose the first method, be sure to consider the tax consequences. Selling appreciated investments in a taxable account will generate a taxable capital gain. You may be better off from a tax perspective selling investments within a tax-deferred or tax-free retirement account where the sale of an appreciated investment is not a taxable event.

Rebalancing is typically done on a periodic basis—say, once every six or twelve months, or when the actual allocation has strayed from the target allocation by a certain percentage—say, by five percent. Sometimes the two strategies are combined, meaning that the portfolio's allocation is reviewed every six or twelve months, but only rebalanced if it has strayed by the chosen percentage. Your financial advisor can help you decide on a rebalancing strategy. ■



**Please consult your financial advisor for advice about what you can do to help boost your retirement savings.**

#### **PLEASE NOTE:**

*All investments are subject to risk. Investments in bonds are subject to interest rate risk. When interest rates rise, bond prices generally fall; the effect is usually more pronounced for longer term securities. Bonds are also subject to inflation risk and credit and default risk for both issuers and counterparties.*

*Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.*

# How to Help Protect Your Portfolio from Inflation

Strategies to help protect the purchasing power of your investments.

**INFLATION WORKS SILENTLY, GOING** almost unnoticed, eating away at the purchasing power of your investments over time. Typically, the nibbles are small, say, 2% a year as consumer prices rise. If your portfolio is earning, say, 5% annually, you still come out ahead of the game with a real return of 3% once inflation is factored in. But if inflation spikes or your returns are not as rosy, inflation's impact on the purchasing power of your portfolio can be more painful.

Although inflation impacts all asset classes, its greatest impact is typically felt by bonds. Why? One reason is that bond interest payments and principal are usually fixed. As inflation increases, their purchasing power decreases. For example, if inflation is 3.5% each year, the purchasing power of a bond's principal will decrease by nearly 30% after 10 years and nearly 50% after 20 years. Another reason for inflation's greater impact on bonds is that inflation is often accompanied by a rise in interest rates, and higher interest rates usually mean lower prices for existing bonds.

Fortunately, there are things investors can do to help protect their portfolios from unexpected spikes in inflation.

**Keep part of your portfolio invested in stocks.** Although a spike in inflation may negatively impact the price of stocks in the short run, stocks offer the greatest likelihood that their returns will outpace

inflation in the long run. Of course, with their potential for higher returns comes higher volatility, meaning that stock prices tend to fluctuate more widely than other asset classes in the short term. Even so, their potential for higher long-term returns and a greater chance of outpacing inflation make stocks an attractive choice for investors with a long investment time frame. Your financial advisor can help you determine what percentage of your portfolio to invest in stocks in light of your goals, the time remaining until you will need your money, and your tolerance for risk.

**Add TIPS to your portfolio.** Treasury Inflation-Protected Securities (TIPS) are a good hedge against inflation. Issued by the U.S. Treasury, these securities offer a “real” rate of return—that is a return that is adjusted for inflation.

Here's how they work: TIPS principal is adjusted for inflation based on changes in the Consumer Price Index (CPI). Interest is paid every six months on the adjusted principal. Although the interest rate is fixed, the interest payments fluctuate due to changes in the principal. The principal and interest payments will increase with inflation and decrease with deflation. When TIPS mature, investors receive the inflation-adjusted principal or the original principal, whichever is higher.

Like other Treasury bonds, TIPS are backed by the full faith and credit of the

U.S. government and so are considered to have a very low risk of default. The government backing, however, refers only to the timely payment of interest and principal. It does not eliminate market risk. If interest rates rise, the price of TIPS and other bonds will generally fall, and vice versa.

TIPS are issued with maturities of 5, 10, and 30 years and can be purchased directly from the U.S. Treasury or bought and sold through a broker. Investors can also tap into inflation protection through a mutual fund or an exchange-traded fund (ETF) that invests in TIPS. Investors should be aware that unlike individual TIPS that are held to maturity, funds do not guarantee the return of principal. The price you receive when you sell a fund may be higher or lower than the price you paid for it.

Please consult your financial advisor for advice about how to help protect your portfolio from the eroding effect of inflation. ■

**PLEASE NOTE:**

*Bonds are subject to interest rate risk. When interest rates rise, bond prices usually fall. The effect is usually more pronounced for longer-term securities. Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties. You may have a gain or loss if you sell a bond prior to its maturity date.*

*Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.*



## Tips about Treasury Inflation-Protected Securities (TIPS)

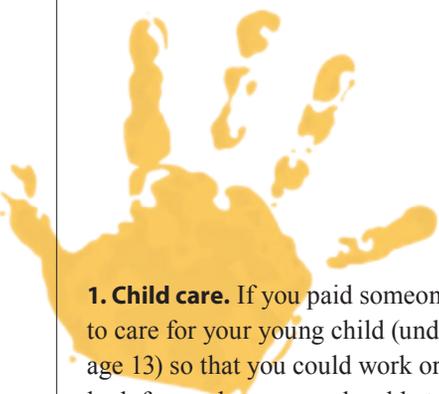
Before investing in TIPS, it is a good idea to consider the difference in yields between conventional Treasuries and TIPS. The difference, known as the **breakeven inflation rate**, is the inflation rate needed for TIPS to provide the same return as conventional Treasuries. For example, if 10-year TIPS are yielding 1% and 10-year Treasury notes are yielding 3%, the breakeven inflation rate is 2%. Inflation must exceed 2% for TIPS to provide a greater return than Treasury notes. If inflation turns out to be less than 2%, the returns from conventional Treasury notes will be greater.

**Consider holding TIPS in retirement accounts** so that taxes are deferred. If TIPS are held in a taxable account, the interest payments and any increases in the principal are subject to federal tax in the year they occur. So if you hold individual TIPS in a taxable account, you will end up paying tax on the increases in principal even though you will not receive these amounts until maturity. Mutual funds and exchange-traded funds work a bit differently, distributing both interest and increases in principal to shareholders throughout the year.

# 20 Tax Credits and Deductions You May Be Overlooking

Can you claim any of them?

**WITH SUCH A COMPLEX TAX CODE,** it may be difficult to keep track of all the credits and deductions that can help reduce your taxes. Sure, you most likely know about deducting mortgage interest and charitable contributions, but do you know that you may be able to write off some of the following expenses? Check with your tax advisor first, though, because the complete rules and requirements are not included here.



**1. Child care.** If you paid someone to care for your young child (under age 13) so that you could work or look for work, you may be able to claim a tax credit for a percentage of the qualifying care expenses that you paid. The child and dependent care tax credit equals 20% to 35% of the first \$3,000 of care expenses you paid for one child or \$6,000 for two or more children. You may also be able to claim the credit if you paid for care for your spouse or certain other individuals who are unable to care for themselves.



**2. Moving for work.** If you are moving to a new area for employment reasons, you may be able to deduct certain moving expenses, such as packing and transporting your household goods, shipping your car, and transportation and lodging expenses related to the move. To be eligible for the deduction, your new job location must be at least 50 miles farther from your old home than your old job location was and you generally must work full time for at least a specific period in the new area.



**3. Plug-in electric drive vehicles.** Low or no gas costs and a whopping tax credit can make purchasing a plug-in electric drive vehicle more affordable. The credit amount ranges from \$2,500 to \$7,500, depending on the vehicle's battery capacity. Models eligible for the full \$7,500 credit include the Tesla Model S, Nissan Leaf, Ford Focus Electric, and Toyota RAV4 EV.



**4. Alternative energy equipment.** Did you add any solar, wind, geothermal, or fuel cell equipment to your home in 2014? If so, you may be able to claim a tax credit for 30% of what you spent. There are no caps on the amount you can claim, except for fuel cells. And labor costs can generally be included when calculating the credit. To qualify, the equipment must meet certain standards and be installed in your main or second home in the United States. In the case of fuel cells, the deduction is limited to main homes only.



**5. Renting out your home.** If you rent your home to others for more than 14 days per year, you can generally deduct your rental expenses, such as mortgage interest, real estate taxes, insurance, utilities, maintenance, and depreciation. Keep track of the time that the home is used for personal use because the expenses will need to be divided between personal and rental use.

## 6. Student loan interest.

You may be able to deduct up to \$2,500 per year of the interest you pay on your student loan. To be eligible, you cannot be claimed as a dependent on someone else's tax return, your filing status cannot be married filing separately, and your modified adjusted gross income (MAGI) must be under \$80,000, or \$160,000 for married couples who file jointly. The deduction amount will be reduced if your MAGI exceeds \$65,000, or \$130,000 for joint filers. If you are eligible for the deduction, you can even deduct interest payments that Mom and Dad, or some other generous person, make on your behalf.



**7. Volunteering.** If you volunteer for a charitable organization and itemize deductions, you can deduct certain out-of-pocket expenses related to your volunteering that are not reimbursed. For example, you can generally deduct car expenses related to providing charitable services (either the actual cost of gas and oil or a flat rate of \$0.14 per mile in 2014). If you travel away from home to provide services, you can deduct the cost of transportation, lodging, and meals, as long as the trip does not include a significant element of vacation or pleasure. You cannot deduct the value of your time or services.



**8. Retirement plan contributions.** If your income is under \$30,000 (single or married filing separately), \$45,000 (head of household), or \$60,000 (married filing jointly), you may be eligible for the retirement savers credit to help offset part of the first \$2,000 you contribute to an IRA, 401(k) plan, or similar workplace retirement plan. You have until April 15, 2015 to make a 2014 IRA contribution and snag the credit for 2014.

**9. Traditional IRA contributions.** Contributions you make to a traditional IRA are tax deductible if you (and your spouse, if you are married) are not covered by a retirement plan at work. If you (or your spouse) are covered at work, your income must be under certain limits for your IRA contribution to be deductible. For example, if you are single and covered by a retirement plan at work, you can fully deduct your IRA contributions as long as your modified adjusted gross income is \$60,000 or less (2014 limit).

**10. Job search.** If you are searching for a new job in your current occupation, you may be able to deduct some of your expenses, such as employment agency fees, preparing and mailing a resume, and travel expenses. These expenses are deductible as a miscellaneous itemized deduction, which is subject to a 2% threshold. This means that you may only deduct the amount of your total miscellaneous deductions that exceeds 2% of your adjusted gross income.



**11. Travel expenses for reservists.** If you are a member of an Armed Forces Reserve and you travel more than 100 miles from home in connection with your reserve services, you can deduct your travel expenses as an adjustment to your gross income. Limits apply.



### 12. Medical and dental expenses.

If you itemize deductions, you may deduct unreimbursed medical and dental expenses that exceed 10% of your adjusted gross income (7.5% if you or your spouse is age 65 or older). The list of deductible expenses includes acupuncture, chiropractors, contact lenses, eye exams, eyeglasses, hearing aids, hospital services, insurance premiums, lab fees, medical doctors, nursing care, oxygen, prescription medications, psychiatric care, special education, wheelchairs, certain programs for alcoholism, drug addiction, and weight loss, as well as several other medical and dental expenses. IRS Publication 502 contains the complete list.



**13. Mortgage points.** Did you pay points to a mortgage company when you bought or refinanced your home? Points are generally prepaid mortgage interest and may be deductible over the life of the loan or, if certain requirements are met, in full in the year they are paid. The home mortgage interest deduction is subject to limits, and the amount of interest and points you can deduct will be limited if your mortgage debt exceeds \$1 million or your home equity debt exceeds \$100,000.



**14. Gambling losses.** Win anything lately? A lottery, raffle, bingo game, casino game, or wager on a horse race? Those winnings are taxable income and must be reported on your tax return. If you incurred some gambling losses in addition to your winnings, you may deduct the losses as long as you itemize deductions and are able to provide receipts or other records proving how much you won and lost. The amount you deduct for gambling losses may not exceed your winnings.



**15. Casualty and theft losses.** If you experienced a casualty or theft loss that was not fully reimbursed by insurance, you may be able to recoup part of your loss with a tax deduction. To determine how much you can deduct, you generally must reduce the unreimbursed portion of your losses by \$100 for each casualty and theft event and then by 10 percent of your adjusted gross income. The limits may be waived or altered if the loss was incurred in a federally-declared disaster area. By the way, to claim a casualty loss, the loss must be from a sudden, unexpected event, such as a fire or a tornado, that damages or destroys personal property, such as your home, household items, or vehicles.



**16. Educator expenses.** The deduction for educator expenses expired at the end of 2013 and had not been extended for 2014, at the time this article was written. If it is extended without changes, teachers, counselors, and aides for grades K–12 can generally deduct up to \$250 of unreimbursed expenses they incur for books, supplies, and equipment used in the classroom. If the deduction is not extended, educators may still be able to deduct some of their out-of-pocket expenses as unreimbursed employee expenses if they itemize deductions on their tax return. Unreimbursed employee expenses can be deducted as miscellaneous itemized deductions, but only to the extent that they and certain other expenses jointly exceed 2% of adjusted gross income (AGI). For example, an educator with an AGI of \$50,000 may only deduct the part of those expenses that exceeds \$1,000.



**17. Jury duty pay.** Were you paid for serving on a jury in 2014? That pay is taxable. But if you gave the pay to your employer because your employer also paid you while you were on jury duty, you can deduct the amount you turned over so that you will not have to pay tax on any income you did not keep.



**18. Home office.** If you use part of your home for business, you may be able to deduct certain expenses related to it. In general, you must use part of your home regularly and exclusively as your principal place of business in order to claim the deduction. To figure the deduction, you either multiply the square footage of your workspace (up to 300 square feet) by \$5 or track your actual expenses, such as real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, and repairs, and allocate those expenses between personal and business use.



**19. Alimony you pay.** You may deduct the amount of alimony or separate maintenance that you pay; you may not deduct child support.

**20. College expenses.** Do you pay college tuition for yourself, your spouse, or your dependents? If so, you may be able to trim thousands of dollars off your taxes by claiming the American opportunity tax credit or the lifetime learning credit. To claim either tax credit, your income must fall within certain limits. For example, the American opportunity tax credit is available to taxpayers with modified adjusted gross incomes (MAGI) below \$90,000 (\$180,000 for joint filers), with the value of the credit beginning to decline as your MAGI approaches the income limit. The lifetime learning credit has lower income limits, but is available for all years of post-secondary education, even if you are just taking a course or two to improve job skills. ■

Please consult your tax advisor for advice about credits, deductions, and preparing your tax returns.

## About Tax Credits

Tax credits reduce your income tax dollar-for-dollar. For example, a \$1,000 tax credit reduces your taxes by \$1,000.

You do not need to itemize deductions to claim a tax credit.

## About Tax Deductions

Deductions reduce the income that you are taxed on. For example, if you are in the 25% tax bracket, a \$1,000 tax deduction will reduce your taxable income by \$1,000 and your taxes by \$250.

Certain deductions mentioned in this article can only be claimed if you itemize deductions on your tax return. They are the deductions for medical and dental expenses, interest you paid (mortgage points), gifts to charity (volunteer expenses), casualty and theft losses, and miscellaneous itemized deductions (job search expenses, educator expenses).

Deductions are subject to a variety of limits, which may restrict their value.



## MADRID | Art and Soul

BY BRIAN JOHNSTON

**MADRID MADE ITS MARK DURING** Spain's golden age in the seventeenth century, and has been the capital since 1561. Its oldest quarters are filled with grand palaces, baroque churches, and glorious plazas, while art fills outstanding museums, such as the Prado.

In the last two decades, Madrid has also emerged as a trendy, modern European capital, where contemporary avenues and glittering skyscrapers are just as much part of the urban scene. Contemporary architects have made a mark, shops burst with the latest fashions, and the acclaimed Centro de Arte Reina Sofía highlights contemporary Spanish art.

You could do worse than start early in the morning with a sturdy pair of shoes

at the vast Prado, one of the greatest art museums anywhere, with sumptuous masterpieces from all over Europe. The museum displays over 4,000 works, almost every one of them top quality. In particular, don't miss works by the Spanish masters El Greco, Velázquez, Goya, and Murillo.

You'd need a week to see all of Madrid's art so, unless you're an art fanatic, you'll have to choose next between splendid European paintings by the likes of Goya, Rembrandt, Caravaggio, and the Impressionists at the Thyssen-Bornemisza Museum, or the best of modern Spanish art at the Centro de Arte Reina Sofía. The latter, sponsored by Queen Sofia of Spain, is housed in a futuristically updated

eighteenth-century building that has generated plenty of controversy, but no one questions the quality of the canvases on display. This is the place to admire modern Spanish masters such as Dalí, Miró, and Picasso, and particularly Picasso's great anti-war masterpiece, *Guernica*.

When art exhaustion sets in, have lunch where it's hip and happening in the Malasaña and Chueca districts, where youthful diners flock to casual eateries featuring new twists and multicultural influences on traditional Spanish dishes. You might want to come back in the evening, when these two districts are even more lively, their narrow alleyways busy with locals looking for the latest music bar or trendy eatery.

Gran Via, the main shopping street in Madrid, (left) is lined with boutiques, as well as hotels, restaurants, and theaters.

For a change from art—or if you have children in tow—Madrid’s zoo is one of the best on the continent, featuring albino tigers, giant pandas, and wild bird shows, as well as an unusual dolphinarium. Kids will especially enjoy the petting zoo and the huge, walk-through shark tank.

If it’s shopping you’re after, Gran Via is the trendiest shopping area in town, with its chic fashion boutiques housed in elegant Art Deco era shops. Traditional painted fans, guitars, leather goods, and glazed ceramics make for excellent buys, but just as interesting are shops selling modernist furniture or designer beachwear: evidence of the new spring in Madrid’s step. On Sundays, there couldn’t be a greater contrast at Rastro, Madrid’s open-air flea market, which has been around for 500 years and is still going strong along Calle Ribera de Curtidores. You’ll find just about everything here from recycled clothing, antiques, and books to spare parts for motorcycles.

You can get a bird’s-eye view of Madrid from the Teleférico (cable car) over the city. From above, it’s obvious how the Palacio Real dominates the old town with its vast bulk. Although it has been the site of a fortress since the ninth century, the current building dates from the early eighteenth century when Spain was flush with the spoils of the Americas. Many will find the palace’s opulence a bit much for modern tastes, but you can visit some of the 2,800 rooms on a guided tour—be prepared to walk considerable distances through royal apartments groaning with chandeliers, inlay, stucco, and gilt.

Having admired the major sights of Madrid, it’s time to enjoy what the



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city does best: the relaxing outdoor and nightlife that lends it such a distinctive energy and spectacle. For a start, there are some 2,000 terrazas in the city, much loved by locals, who while away balmy evenings on these café terraces, whether on rooftops or at street level. The charming tree-lined street known as Paseo del Pintor Rosales has a long collection of popular terrazas. Alternatively, linger for coffee in splendid Plaza Mayor, just the place to watch buskers, passers-by, and local kids licking scarlet ice creams. This famous public square dates from medieval times and has been host to markets, executions, bullfights, and festivals for centuries. These days, as the temperature drops on long summer nights, the plaza is the place to listen to music, enjoy a cool drink at an outdoor café, or simply people watch.

As the sun slides down behind the suburbs and the sky turns mauve, Madrid shrugs off the day’s heat and truly comes into its own. In the evening, 18,000 bars compete to outdo each other with tapas and entertainment that goes on until dawn. Restaurants hum with patrons, locals congregate in cool plazas, and the haunting tones of flamenco and live music float from laneways long into the night.

One of the best areas to head in the evening is the old (but newly fashionable) La Latina quarter in the alleyways

south of Plaza Mayor. By day, this is the place to admire baroque churches, a variety of architecture reflecting the passing centuries, and a bewildering number of little shops that specialize in everything from stamps to antique books. In the evening, this is the district for hopping between one tapas

bar and the next for a bite; locals call this activity the tapeo. For many visitors, a tapeo is just the thing to stave off hunger while waiting for the dining hour to arrive—something that doesn’t happen in Madrid until at least ten o’clock at night.

Tapas, those pre-dinner snacks so beloved of the Spanish, come in an amazing variety. You could begin with cold dishes, usually arranged along the countertop of tapas bars: anchovies glistening with olive oil, a little manchego cheese, or tiny purple-shelled cockles in garlic and parsley sauce, salty from the sea. You can order hot dishes too: a tiny omelet, some juicy green peppers roasted over an open flame until the skin is charred, or maybe deep-fried squid sprinkled with pepper and lime juice.

After dinner, you could catch the best of flamenco from well-known stars and young up-and-comers at Las Carboneras in Plaza del Conde. Old men strum guitars and sing of love, while women dance in a haunting and melancholy display of Spain’s iconic art form. Alternatively, it’s time to hit the chic Café Central in Plaza de Ángel, where jazz performers are just getting warmed up in one of the best jazz venues anywhere in Europe. As midnight comes and goes, the night is still young in Madrid. Madrid really is a city that never sleeps. With so much to do and enjoy, who has time? ■



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# Flower Shows

*A BREATH OF SPRING IN THE MIDST OF WINTER*

## **BOSTON** ▶ **Boston Flower & Garden Show**

*Seaport World Trade Center · March 11–15, 2015*

"Season of Enchantment" is the theme of this year's event, which will feature garden displays and floral arrangements focused on the mystical joys of the spring landscape, as well as lectures and demonstrations to help you add some magic to your garden.

## **ESSEX JUNCTION, VT** ▶ **The 2015 Vermont Flower Show**

*Champlain Valley Exposition · February 27–March 1, 2015*

Spring starts early in Vermont this year as the 2015 Vermont Flower Show presents a grand landscaped display and more than 90 gardening/horticultural vendors, for three days beginning in late February. Educational seminars, workshops, and cooking demonstrations round out the event.

## **PHILADELPHIA** ▶ **Philadelphia Flower Show**

*Pennsylvania Convention Center · February 28–March 8, 2015*

The world's oldest and largest indoor flower show kicks off on February 28 for nine days of gardening workshops and lectures, live entertainment, culinary demonstrations, and, of course, large-scale garden displays and spectacular floral creations.

## **SAN MATEO, CA** ▶ **San Francisco Flower & Garden Show**

*San Mateo Event Center · March 18–22, 2015*

Full-size showcase gardens take center stage at this event, along with numerous seminars, demonstrations, and exhibits where winter-weary visitors can learn about gardening, landscaping, and designing with flowers, as well as purchase the latest and greatest garden products.

## **SEATTLE** ▶ **Northwest Flower & Garden Show**

*Washington Street Convention Center · February 11–15, 2015*

Presented during Valentine week, this year's event is themed "Romance Blossoms" and offers visitors an opportunity to stroll through romantic, flower-filled show gardens, as well as browse the wares of hundreds of exhibitors. ■

QUIZ

# OPENING LINES

- "Mr. and Mrs. Dursley of number four, Privet Drive, were proud to say that they were perfectly normal, thank you very much."  
A. *Harry Potter and the Sorcerer's Stone*, by J.K. Rowling  
B. *The Casual Vacancy*, by J.K. Rowling
- "When he was nearly thirteen, my brother Jem got his arm badly broken at the elbow."  
A. *The Grapes of Wrath*, by John Steinbeck  
B. *To Kill a Mockingbird*, by Harper Lee
- "I'd never given much thought to how I would die—though I'd had reason enough in the last few months—but even if I had, I would not have imagined it like this."  
A. *Twilight*, by Stephenie Meyer  
B. *The Host*, by Stephenie Meyer
- "Two households, both alike in dignity, in fair Verona, where we lay our scene..."  
A. *Romeo and Juliet*, William Shakespeare  
B. *Macbeth*, William Shakespeare
- "Call me Ishmael."  
A. *Treasure Island*, by Robert Louis Stevenson  
B. *Moby-Dick*, by Herman Melville
- "When Mr. Bilbo Baggins of Bag End announced that he would shortly be celebrating his eleventy-first birthday with a party of special magnificence, there was much talk and excitement in Hobbiton."  
A. *The Hobbit*, by J.R.R. Tolkein  
B. *The Lord of the Rings: The Fellowship of the Ring*, by J.R.R. Tolkein
- "Renowned curator Jacques Saunière staggered through the vaulted archway of the museum's Grand Gallery."  
A. *The Da Vinci Code*, by Dan Brown  
B. *Inferno*, by Dan Brown
- "It was the best of times, it was the worst of times..."  
A. *Oliver Twist*, by Charles Dickens  
B. *A Tale of Two Cities*, by Charles Dickens
- "There was a time in Africa the people could fly."  
A. *The Invention of Wings*, by Sue Monk Kidd  
B. *The Secret Life of Bees*, by Sue Monk Kidd
- "Scarlett O'Hara was not beautiful, but men seldom realized it when caught by her charm as the Tarleton twins were."  
A. *Gone With the Wind*, by Margaret Mitchell  
B. *Wuthering Heights*, by Emily Brontë

ANSWERS: 1-A, 2-B, 3-A, 4-A, 5-B, 6-B, 7-A, 8-B, 9-A, 10-A

# H | M | S

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Herb Shapiro, Vice-President and founder, brings more than 44 years of industry experience to the HMS team. He began his career in 1970, and worked for several firms until 1988, when he founded HMS Financial Group. His core values of providing personal service, maintaining market objectivity, and high standards of integrity and honesty with the clients he serves, are deeply imbued in the HMS philosophy.

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Barbara Shapiro, CFP, CDFA, CFS & Herb Shapiro

Certified Divorce Financial Analysts in Massachusetts. She holds a Master of Science in Finance from Suffolk University and is a Graduate of the Securities Industry Association Institute at the Wharton School. Additionally, she holds a Master of Education in Counseling from Boston University and a Master of Education in Moderate Special Needs from Northeastern University.

Among her many recognitions, Barbara has served as a National Board Member of the Securities Industry Foundation for Economic Education, past member of the Boston Jewish Community Women's Fund, and the Treasurer of the Massachusetts Council of Economic Education. She is continually interviewed and quoted in all of the major financial publications.

She is an active lecturer to diverse groups and educational institutions, and has written and teaches a course on financial planning, investments, and long-term care insurance.

**Tel: 781-251-2655 • Fax: 781-251-2656 • Location: 333 Elm Street, Suite 210, Dedham, MA 02026**  
**E-Mail: [bshapiro@hms-financial.com](mailto:bshapiro@hms-financial.com)**

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