



# MAKING THE MOST OF YOUR MONEY

## FINANCIAL TIPS FOR TODAY'S CONSUMER

CONSUMER CREDIT COUNSELING SERVICE OF MONTANA & WYOMING

Client Newsletter  
January 2009

### Tax Season is Coming!

Don't forget this season to check out Tax Help Montana for free tax preparation. Visit [www.taxhelpmontana.org](http://www.taxhelpmontana.org) for more information or sites near you!

### 5 tax myths that can cost you money

**Myth 1:** Students are exempt. Lots of people believe there's an exemption for students that excludes them from tax. There's no special tax status afforded to students. They are subject to tax on all their income, regardless of how many credits they're taking or whether or not they're fully matriculated. Students do get special tax credits, the Hope Credit and the Lifetime Learning Credit. In addition, distributions from a Section 529 Plan are now tax-free. But their income is subject to tax, just like the rest of us.

**Myth 2:** My child is working. So, I can't claim him as my dependent. Again, pure myth. As long as you provide more than half that child's support (and meet other qualifications such as citizenship and relationship), the child qualifies as your dependent, and you can deduct, for example, all the medical costs you paid for that child. Remember, support is what's spent, not what's earned. So, let's say your child makes millions as a teenage fashion model. If she banks all the cash and you actually shell out the dough to support her profession, you've provided 100% of that child's support.

**Myth 3:** I'm over age 55, so I can sell my house tax-free. Wrong again! You're thinking old law. It used to be that if you were older than 55, you could exclude as much as \$125,000 in gains from taxes, but only once. Now the rules are even better. Under current law, age no longer matters. If the property sold was your principal residence for at least two out of the last five years, then you can exclude from tax as much as \$250,000 in gain (and \$500,000 on a joint return).

**Myth 4:** I can deduct my sales taxes. This is a funny one. You hadn't been able to deduct any sales taxes for purchases made for personal use since 1986.

**Myth 5:** I'm married, so I have to file a joint return. Again, not true. If you're married, you can always file "Married Filing Separately." That normally results in your paying more in taxes. But in some situations, it can be to your advantage. For example, if one spouse has substantial medical or miscellaneous deductions, those deductions are subject to the 7.5% and 2% floors respectively. That is, only medical expenses over 7.5% of adjusted gross income and miscellaneous deductions over 2% of adjusted gross income are deductible. If I had \$10,000 in income and my spouse had \$90,000 in income, the first \$7,500 in medical expenses and the first \$2,000 in miscellaneous expenses aren't allowed. But if I filed as "Married Filing Separately," the disallowance would only apply to the first \$750 in medical expenses and the first \$200 in miscellaneous itemized expenses. The potential availability of \$8,550 (\$7,500 plus \$2,000, less the sum of \$750 and \$200) in additional deductions could offset the bracket and other limitations of filing separately. Do it both ways, and see which gives you the lowest total tax. You can change your filing status annually.

Our tax code is complicated and changes with painful regularity. Many of the old rules are remembered and distorted into myths. Don't get caught in the trap of using the wrong rules. That can cost you big!

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# Your 5-minute guide to banking

Banks now get a big chunk of their revenue from those little fees they charge you. But a savvy consumer can avoid paying up. Banks today make much of their money from convenience -- and from inconvenience. More than 40% of bank revenue now comes from fees on consumer accounts. But a careful customer can take advantage of the services banks offer and avoid paying many fees. Also, you could consider joining a credit union.

**Opening an account:** The most basic bank service is still the checking account, and there are lots of choose from, including free accounts with no minimum balance, NOW (negotiable order of withdrawal) accounts that pay interest as long as a set minimum balance is maintained, and money-market deposit accounts, which pay higher interest but require a higher balance and limit the number of checks you can write. Some banks offer special accounts for seniors and students.

## Checking

- Ask the bank for a detailed description of each type of account, including monthly fees and penalties for not living up to specific terms, such as writing too many checks or not keeping enough money in the account. It will probably have a brochure or Web page to review.
- Once you've opened the account, avoid overdrafts. The fee for nonsufficient-fund checks has risen to an average of \$30. Banks usually honor the largest check first, leaving less money to cover smaller checks. So instead of bouncing one large check, you could end up paying an NSF fee on each of the smaller checks, as well as the fee charged by each business that was shorted.
- Many banks automatically enroll their customers in so-called bounced-check protection. The bank will cover your NSF check, up to a certain limit, but you'll still end up paying the bank's NSF fee plus daily fees until you've made good on what you owe. Standard overdraft protection is a better buy. For a small fee, the bank will draw on your savings account, credit card or line of credit to cover bad checks.

## Debit or credit

When you open an account, you will receive a debit card, which will allow you to access cash at ATMs and make purchases at stores. Again, watch out for pesky fees.

- If you use your card in a cash machine owned by another bank, you'll pay a fee of as much as \$3, and your bank will charge a fee, too. Paying \$6 to withdraw \$40 isn't smart, and you might not even realize it's happening.
- Many banks also charge a fee when you make purchases with your debit card. When the cashier asks, "Debit or credit?" after you present your card, pick the credit option and avoid the fee.
- If you use your debit card when making hotel reservations or buying gas, merchants may put a hold on your account that's more than enough to pay your final bill.

## Savings

Banks offer basic, low-interest savings accounts and higher-interest money-market accounts to grow your money while still making it quickly available to you. Some banks charge fees to maintain the accounts.

- Shop around for the best deals. Brokerage firms, for example, offer access to a variety of bank certificates of deposit. If you want more bang for your buck, money-market funds available through mutual fund companies generally pay a higher yield and don't have an early-withdrawal provision.
- Certificates of deposit mature and pay interest in 30 days or more, usually with a higher interest rate the longer the term. A penalty is charged for early withdrawal, so make sure you won't need the money.

# Kids Corner

## Time Capsule Can

### What you'll need:

Empty can with plastic lid (mixed nuts, peanuts, potato chips, etc) · Yellow construction paper · Tape · Red glitter glue · Gold chenille stem · Scissors · Red acrylic paint · White craft glue · Piece of paper · Pen or marker

### How to make it:

- Be sure that can is clean and dry. Wrap can with yellow construction paper, glue or tape in place
- Glue a piece of gold chenille around the bottom of the can. You will need to hold the chenille in place until the glue adheres.
- Dip one finger from each family member in red paint and dab off excess on paper towel. Place a red fingerprint on the side of the can.
- Use red glitter glue to write the year on the front of the can. Let it dry completely.
- When dry, have each family member place a small item inside the can. Use a pen to write an "inventory" list on a piece of paper stating what each member added to the time capsule.
- Place the list inside with the other items and seal the can with its lid. Don't open until all children are grown (or at least not until next year)!

