



## Jepsen Financial

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### March 2020

Spring Cleaning Your Way to Better Finances

The Cost of Credit

How can I avoid becoming a victim of a social engineering scam?

Cartoon: Personal Financial Disorder



# Financial Update

## *Ideas and Action Steps for Achievers*

### Due Date Approaches for 2019 Federal Income Tax Returns



Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2018 tax return and gathering W-2s, 1099s, and

deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

#### Don't procrastinate

The filing deadline for individuals is generally Wednesday, April 15, 2020.

#### Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2020) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

**Note:** Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic two-month extension (to June 15, 2020) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.

#### What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

#### Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is now required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return.



## Spring Cleaning Your Way to Better Finances



*When it comes to your personal finances, reducing debt should always be a priority.*

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

Spring is a good time to clean out the cobwebs, and not just in your home or apartment. Your personal finances can benefit from a good spring cleaning, too. Here are some questions to ask yourself regarding your budget, debt, and taxes.

### **Is there room in my budget to save more?**

A budget is the centerpiece of any good personal financial plan. After tallying your monthly income and expenses, you hopefully have money left over to save. But... is there room to save even more? Review your budget again with a fine-tooth comb to see if you might be able to save an additional \$25, \$50, \$100, or \$200 per month. Small amounts can add up over time. If you participate in a workplace retirement plan, you might not even notice your slightly smaller paycheck after you increase your contribution amount.

If your expenses are running neck and neck with your income, try to cut back on discretionary spending. If that's not enough, look for ways to lower your fixed costs or explore ways to increase your current income. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your savings progress.

### **Do I have a strategy to reduce debt?**

When it comes to your personal finances, reducing debt should always be a priority. Whether you have debt from student loans, credit cards, auto loans, or a mortgage, have a plan to pay down your debt as quickly as possible. Here are some tips.

- **Credit cards.** Keep track of your credit card balances and be aware of interest rates and hidden fees; manage your payments so you avoid late fees; pay off high-interest debt first; and avoid charging more than you can pay off at the end of each billing cycle.
- **Student loans.** Are you a candidate for income-based repayment? You can learn more at the [Federal Student Aid website](#).
- **Additional payments.** Making additional loan payments above and beyond your regular loan payments (or the minimum payment due on credit cards) can reduce the length of your loan and the total interest paid. Online calculators can help you see the impact of making additional payments. For example, if you're halfway through a 30-year, \$250,000 mortgage with a fixed 4.5% interest rate, an additional principal payment of \$150 a month can shave two years off your mortgage. An extra \$250 a month can shave off three years!

- **Refinancing.** If you currently have consumer loans, such as a mortgage or auto loan, take a look at your interest rate. If you're paying a higher-than-average interest rate, you may want to consider refinancing. Refinancing to a lower interest rate can result in lower monthly payments and potentially less interest paid over the loan's term. Keep in mind that refinancing often involves its own costs (e.g., points and closing costs for mortgage loans), and you should factor these into your calculation of how much refinancing might save you.

- **Loan consolidation.** Loan consolidation involves combining individual loans into one larger loan, allowing you to make only one monthly payment instead of many. Consolidating your loans has several advantages, including saving you time on bill paying and record keeping and making it easier for you to visualize paying down your debt. In addition, you may be able to get a lower interest rate.

- **Paying down debt vs. investing.** To decide whether it's smarter to pay down debt or invest, compare the anticipated rate of return on your investment with the interest rate you pay on your debt. If you would earn less on your investment than you would pay in interest on your debt, then using your extra cash to pay off debt may be the smarter choice. For example, let's say you have \$2,000 in an account that earns 1% per year. Meanwhile, you have a credit card balance of \$2,000 that incurs annual interest at a rate of 17%. Over the course of a year, your savings account earns \$20 interest while your credit card costs you \$340 in interest. So paying off your credit card debt first may be the better choice.

### **Do my taxes need some fine-tuning?**

Spring also means the end of the tax filing season. You might ask yourself the following questions:

- Am I getting a large tax refund or will I owe taxes? In either case, you may want to adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.
- What else can I learn from my tax return? Now is also a good time to assess tax planning opportunities for the coming year, when you still have many months left to implement any strategy. You can use last year's tax return as a reference point, then make any anticipated adjustments to your income and deductions for the coming year.



## The Cost of Credit



*All calculations assume constant monthly payments over the life of the loan, monthly calculation of interest on the remaining unpaid principal, and no prepayment.*

*This information is provided for illustrative purposes only. The actual amount of interest you'll pay on a loan will depend on several factors, including the amount you borrow, the interest rate, the repayment term, and loan conditions.*

Sometimes you need to borrow money, especially to pay for a large purchase such as a home or a car. It's easy to focus on your monthly loan payment, but to appreciate how much borrowing money might really cost, you also need to consider the amount of interest you'll pay over time. The following tables illustrate the total interest paid over the life of three common types of loans that have a fixed annual interest rate and a fixed repayment term: mortgage loans, auto loans, and personal loans.

### Mortgage loans

A home is often the biggest purchase you'll ever make. Loan repayment terms vary; this chart illustrates the total interest paid over a 30-year repayment term.

Loan amount	3%	4%	5%	6%
\$250,000	\$129,444	\$179,674	\$233,139	\$289,595
\$350,000	\$181,221	\$251,543	\$326,395	\$405,434
\$450,000	\$232,999	\$323,413	\$419,651	\$521,272
\$550,000	\$284,776	\$395,282	\$512,907	\$637,110
\$650,000	\$336,553	\$467,152	\$606,163	\$752,948
\$750,000	\$388,331	\$539,021	\$699,418	\$868,786

### Auto loans

You may take out a loan to buy a new or used vehicle. Loan repayment terms vary; this chart illustrates the total interest paid over a 60-month repayment term.

Loan amount	2%	4%	6%	8%
\$15,000	\$775	\$1,575	\$2,400	\$3,249
\$20,000	\$1,033	\$2,100	\$3,199	\$4,332
\$25,000	\$1,292	\$2,625	\$3,999	\$5,415
\$30,000	\$1,550	\$3,150	\$4,799	\$6,498
\$35,000	\$1,808	\$3,675	\$5,599	\$7,580

### Personal loans

A personal loan is unsecured, meaning that no collateral is required, so the interest rate on this type of loan is typically higher than for a secured loan. Loan repayment terms vary; this chart illustrates the total interest paid over a 36-month repayment term.

Loan amount	6%	8%	10%	12%
\$8,000	\$762	\$1,025	\$1,293	\$1,566
\$10,000	\$952	\$1,281	\$1,616	\$1,957
\$12,000	\$1,142	\$1,537	\$1,939	\$2,349
\$14,000	\$1,333	\$1,794	\$2,263	\$2,740
\$16,000	\$1,523	\$2,050	\$2,586	\$3,131



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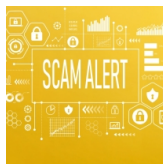
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Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or perhaps you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on a link you were sent. In both scenarios, clicking on the link can accidentally result in revealing your sensitive personal and financial information to a cybercriminal.

In a social engineering scam, a cybercriminal psychologically manipulates victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their victims. As a result, people often react without thinking first due to curiosity or concern about the message that was sent. Since social engineering scams appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Fortunately, there are steps you can take to protect yourself from a social engineering scam:

- If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services.
- Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to an email that requests charitable help unless you can follow up directly with the organization.
- Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply, delete it.
- Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive phone calls that demand money or request sensitive personal and financial information.



IM AFRAID THERE'S NOTHING I CAN PRESCRIBE FOR  
PERSONAL FINANCIAL DISORDER.