

Mary Rowland Answers Members' Questions

Mary Rowland Personal Finance Column – April 2007

Q: Is it too late to do anything to save money on 2006 taxes?

A: You can add money to your IRA account, which offsets your income dollar for dollar, right up until tax day. There are also three expired tax breaks that were extended by Congress in December after the 2006 forms had been printed.

Teachers and other educators are permitted to deduct up to \$250 for classroom supplies. Do this on Line 23 of line 1040, which reads "Archer MSA Deduction." Write "E" on the dotted line to the left of that line. If claiming both, the educator expenses and the Archer deduction for medical savings accounts, put "B" and attach a breakdown.

A provision allowing taxpayers to deduct state and local sales tax rather than income tax was extended for 2006 and 2007. If you choose to do this, on Schedule A, Form 1040, write ST on the dotted line to the left of line 5 that reads "state and local income taxes."

Deductions for higher-education tuition and fees can be claimed on Form 1040, on Line 35, which reads "domestic production activities deduction." To claim the education costs, write "T" to the left of that line. If you claim the domestic production activities as well, write a "B" next to the line and attach a breakdown of both deductions.

Q: My son applied to five colleges and did not get an acceptance from any of them. What can we do now?

A: It depends on the reason he didn't get any acceptances. The college admissions process has become Byzantine. It's quite possible for an excellent, well-rounded student to receive no acceptances if he applied to five of the "hot schools," including the Ivy League and others in that circle such as Georgetown, Stanford, Northwestern. Your son's guidance counselor should have been realistic about his chances at the schools where he applied. If your son is ready and determined to go, ask the guidance counselor to pull together a list of possibilities and find out if those schools are still taking applications for fall. You might also talk with a counselor who is trained to get students accepted at colleges. Ask for a couple of sessions to review your son's applications and discuss possibilities with him.

Talk with your son, too. Is he surprised and devastated? Is he relieved? This is an opportunity for him to surmount an obstacle and learn a lesson. Many students wait a year between high school and college. Would that suit him better? Is he interested in any type of international volunteer experience that would help him grow and raise his eligibility? What he does with the next year is very important. But going to college is not the only good option now. Does he have a passion? Talk to him about his goals and dreams. If he has none, perhaps he needs some counseling. Assure him that this is not the end of his life. This time will give him a chance to learn how to get around obstacles. The end of high school and beginning of preparation for life is a difficult transition. Help him with it.

Q: My wife and I have been planning for four years to buy a new house in the spring of 2007. Now we feel uncertain because of the chaos in the housing market. Is buying a house now a good idea?

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A: If you are a qualified buyer, buying a house this spring is a better deal than it was last spring when housing prices were seriously over inflated. But it might be more difficult to get a mortgage. Many bankers were burned during the long housing run-up in the first half of this decade. Some became too lenient in making mortgage loans to homebuyers without requiring that they document their income, for example. Some offered teaser rates as low as one percent on adjustable rate mortgages. If a homebuyer barely qualified for the one percent mortgage, he was often in trouble when the rates were adjusted upward.

Now banks need to clean up their portfolios of bad loans. A Federal Reserve Board survey found that 15 percent of domestic banks have tightened credit guidelines over the past three months. Some banks are requiring a larger percent of the purchase price as a down payment. Others are offering adjustable rate mortgages with a pre-payment penalty. That means if you refinance your loan within the first three years, for example, you might have to pay six months' interest as a penalty.

If you have good credit and know the market where you are buying, this is a good time to buy a house. Just watch out for new fees and charges and for prepayment penalties. You may want to consult a mortgage broker. Mortgage brokers are paid by the lender so the loan will not cost you anything extra if you use a broker.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.