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Financial Planning Strategies

A Financial Planning Update

From the Desk of:
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Mr. Kennedy's investment philosophy is the same that he has practiced over the last decade: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model.

Mr. Kennedy is an Investment Advisor Representative of ITI Financial Management, LLC. Investment services are offered through ITI Financial Management, LLC, a registered investment adviser with the state of Missouri.

A Vacation Home: The Ultimate Hideaway

Are you dreaming of a mountain cabin or an oceanfront bungalow hideaway? Then you may want to consider that a vacation home can offer some tax savings. Whether you choose to use the home solely for enjoyment or combine business and pleasure by renting the property part-time, it is important to understand the tax laws for a second home.

If you use the place as a second home—rather than renting it out—interest on the mortgage is deductible within the same limits as the interest on the mortgage on your first home.

For tax years prior to 2018, you can write off 100 percent of the interest you pay on up to $1.1 million of debt secured by your first and second homes and used to acquire or improve the properties. For tax years after 2017, the limit is reduced to $750,000 of debt secured by your first and second home for binding contracts or loans originated after December 16, 2017. For loans prior to this date, the limit is $1 million ($1.1 million without the $100,000 home equity portion).

This advantage is restricted to two homes. Should you purchase a third home, interest on that mortgage is not deductible. However, regardless of how many homes you have, you may be able to deduct the property tax paid. Property taxes are still deductible in 2018 and beyond. However, the Tax Cuts and Jobs Act has limited the deduction to a $10,000 annual cap. When you consider this fact, combined with the higher standard deduction ($24,400 in 2019) that will make itemizing not worthwhile for most people.

One break enjoyed by homeowners—the right to immediately deduct points paid on a mortgage—applies only to a principal residence. Points paid on a loan for a second home must be deducted gradually, as the mortgage is paid off.

Personal Residence

Your vacation home is considered a personal residence if you rent it for no more than 14 days a year. In such a situation, you may retain the rent tax free without jeopardizing your mortgage interest and tax deductions. However, you may not deduct any rental-related expenses. If you rent out the house on a continual basis, things may become more complicated. Depending on the breakdown between personal and rental use, different rules may apply.

If you buy primarily for pleasure but rent for 15 days or more, the rent you receive is taxable. Because the house is still considered a personal residence, you may deduct all of the interest and

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Help Your College Student "Make the Grade" in Personal Money Management

As your child prepares to head off to college, he or she is likely looking forward to a new level of independence. However, with freedom comes responsibility. One "extracurricular" activity that every student should master while in college is personal money management.

During a school year, the average college or university student spends between $3,990-5,610 for books, supplies, transportation, and personal expenses (*Trends in College Pricing—2018-19*, The College Board) depending on the kind of institution they attend. Parents who allow their students to "spend as they go" may find themselves refilling a seemingly bottomless well.

Laying the Groundwork

To help prevent overspending, parents can help their students develop basic money management skills. Consider the following steps to help get your child off to a good start at college:

1. Before your student leaves for college, have an open discussion of expectations—both your child's and yours.
2. Consider providing a lump sum each semester, setting guidelines on how long the money must last.
3. Explain when checks or money transfers can be expected, the amount your student will receive, and any rules concerning use of the funds.

Parents have several options for getting the funds to their college student. They can send checks or transfer funds directly into an account through the bank or online. However, it may be difficult to cash a personal check without a local bank account. Even with the convenience of online banking, it may be a good idea for your student to open a small account on campus.

While some parents may avoid credit cards, especially for a student who has difficulty managing money, others may find a credit card to be a useful backup, especially in an emergency or for certain expenses, such as car rentals, plane fares, and train tickets.

Cultivating Money Smarts

To encourage young adults to take responsibility for their finances, parents can start by teaching them to manage their own savings and checking accounts. Have them meet with a bank representative to open the accounts, and practice balancing the monthly statements. This accountability will help set the foundation for future financial independence.

Parents can also emphasize the importance of *disciplined* spending. Recommend that young adults allocate a set amount per week for discretionary spending, so they are not tempted to withdraw funds too quickly or carelessly. By discussing what this amount must cover, students may come to realize that too many late night pizzas can easily exhaust the funds.

Although many schools require first-year students to live in a dorm on campus, parents can use the decision about whether to live on- or off-campus as an exercise in evaluating financial tradeoffs. Initially, your child may think it will be cheaper to live off-campus. However, in many college towns with a high demand for off-campus housing, accommodations within walking distance of the campus are expensive. Also, landlords frequently require a one-year lease—a period longer than the school year. On the other hand, living off-campus may allow students to save money by sharing housing expenses and preparing their own meals. You may revisit this decision as your child progresses to the sophomore or junior year, as he or she makes friends and becomes acclimated to the area.

Reaping Rewards

Both you and your college-age child can benefit if he or she "makes the grade" in personal money management. Life can become easier for you if you can count on your child to manage out-of-pocket expenses while away at school. And, your child may be better prepared for future financial independence. $

Personal Insurance: A Safety Net

What if you were to get in an accident, damage your car, and become disabled leaving your loved ones to support themselves? What if your house was to burn down or your business was burglarized? Insurance can help to provide a safety net for each of these hardships.

Personal insurance, including **automobile**, **umbrella liability**, and **property insurance**, has become a necessary part of our lives, fulfilling vital social needs and, in many ways, promoting public safety. By helping people restore their property and belongings to their original condition, insurance provides a valuable function.

While insurance cannot eliminate or prevent liability lawsuits, it *can* protect the owners of homes, automobiles, businesses, and other property from the potential effects of a lawsuit. It *can* also make facing the risks involved in owning a home, operating a vehicle, or running a company manageable. In addition, insurance *can* help provide the money to replace damaged or destroyed property.

Health and **long-term care insurance** alone cannot save lives, but *can* help pay for timely medical attention and extended care that may eventually save lives. **Life insurance** *can* help families maintain their financial independence by providing much needed funds when a loved one dies. **Disability income insurance** *can* help replace a portion of the income of a disabled breadwinner and preserve a family's standard of living. In short, insurance helps protect individuals, families, and businesses from potential financial hardship as a result of unexpected events.

Individuals may buy insurance because the law or lenders require it, or because they want to know that they may be indemnified for unpredictable losses. The decision may be based on the amount of risk they are willing to tolerate and the amount of protection they desire.

The proper insurance coverage *can* help to lighten your burden when facing difficult circumstances. To learn more about personal insurance coverage for your specific situation, speak to one of our qualified professionals—because it never hurts to have a safety net. $

Divorce and Retirement Plan Proceeds

Divorce can be "taxing" enough, but need not be made more difficult by the mismanagement of the division of assets in a retirement plan. As more Americans participate in 401(k) plans and other defined contribution retirement plans, dividing vested retirement plan assets in divorce situations can be complicated. In addition, defined benefit plans can involve numerous concerns, such as the participant's death before retirement, and the form of the benefit payments at retirement.

A Qualified Domestic Relations Order (QDRO) is a legal document that enables a retirement plan to transfer money or other plan assets to the non-employee former spouse. A QDRO must meet very specific requirements of the Internal Revenue Service (IRS) and the Employee Retirement Income Security Act of 1974 (ERISA). Note that without a QDRO, a transfer of retirement plan assets cannot occur.

Entitlement to your former spouse's retirement plan benefits depends on the type of plan. For a defined contribution plan, whereby each plan participant has his or her own individual account, a former spouse may be entitled to 50% of the vested and non-vested benefits that were credited or accrued during your marriage. Depending on the type of defined benefit plan, you can receive a portion of the retirement benefit based on the amount of time of your marriage during plan participation and the total amount of time the employee former spouse participates in the plan through retirement.

Since many issues need to be thoroughly discussed regarding divorce and retirement plan benefits, be sure to consult your tax and legal professionals for guidance about your unique circumstances. $

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property tax. (The allocation of property tax between personal use and rental use may help with managing the $10,000 cap on personal state and local taxes.) You may also be able to deduct other rental-related expenses, including the cost of utilities, repairs, and insurance attributable to the time the house is rented. In some cases, you may be able to deduct depreciation. When the house is considered a personal residence, rental deductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house combined with the operating expenses more than offset rental income, thus limiting your ability to write off depreciation.

Rental Property

Now consider your tax situation if you buy a property primarily as an investment and limit your personal use of the property to 14 days a year (or 10% of the number of rental days, whichever is greater). Because the house is a rental property according to the Internal Revenue Service (IRS), your deductions can exceed the amount you receive in rental income.

If your rental income does not cover the cost of renting the house, you may be able to claim a taxable loss. Rental losses are classified as passive and can be deducted only against passive income, such as that from another rental property that realizes a gain. If you do not have passive income to shelter, the losses have no immediate value; however, unused losses can be used in the future when you have passive income.

There's an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under $100,000 ($50,000 if married filing separately) to deduct up to $25,000 ($12,500 if married filing separately) of passive losses against other kinds of income, including salaries. To qualify, you must actively manage the property. The $25,000 allowance is gradually phased out for taxpayers whose AGI is between $100,000 and $150,000.

If your vacation home is considered a rental property, the mortgage interest attributable to the time the premises are rented is a business deduction. The remainder cannot be deducted as home mortgage interest since the house doesn't qualify as a personal residence.

These tax laws also apply to apartments, condominiums, mobile homes, or boats with basic living accommodations. Generally, these are considered rental properties if they include a sleeping space, bathroom, and cooking facilities. If you are considering the purchase of a vacation home, keep in mind that, from a tax perspective, that mountain cabin or oceanfront bungalow may be the ultimate dream home. $

Current tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the particular set of facts and circumstances. The information contained in this newsletter is not intended as tax, legal, or financial advice, and it may not be relied on for the purpose of avoiding any Federal tax penalties. You are encouraged to seek such advice from your professional advisors. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Written and published by Liberty Publishing, Inc. Copyright © 2019 Liberty Publishing, Inc.