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June 2019 Newsletter ADV

Five Things to Know Before Becoming a Landlord



Increased cash flow, property appreciation, and tax benefits are three major reasons why people want to own rental properties. But being a landlord takes time and money, so before you purchase an investment

property or rent out your own home, make sure you understand what's involved.

must comply with this Act if you run consumer reports such as background checks or credit reports when screening potential tenants or making decisions about current tenants.

3. Insurance requirements

Contact your insurance company to find out what type of insurance you need to cover your rental property. You may need a landlord or rental dwelling policy that covers damage to the home's structure, and that provides liability coverage to protect against legal fees and medical costs in the event your tenant or someone else is hurt on the property.

1. Basic duties of a landlord

Your rental property is a business, and being a landlord comes with a great deal of financial and legal responsibility. Some of the major duties of a landlord include:

- **Finding responsible tenants.** This includes advertising and showing your property, and screening applicants.
- **Preparing and executing a lease.** The lease, or rental agreement, must conform to legal requirements, and include information such as the lease period, rent amount, and tenant names, and must specify lease terms and conditions.
- **Maintaining the property.** Your property must be safe and fit to live in, and must comply with all health and building codes. You may need to be available at all hours to respond to urgent tenant issues.
- **Collecting rent.** There may be periods when the property is vacant or your tenant hasn't paid the rent on time, so make sure you're prepared for the financial ramifications.

4. Keeping records

Keeping good records is essential. Having accurate maintenance and repair records will substantiate that you've fully addressed property issues in the event of a dispute with a tenant. Other important documentation includes legally required records such as move-in/move-out inspections and security deposit receipts, and supporting documents for rental income and expenses that will be especially important at tax time.

2. Rental laws

Each state has its own laws designed to protect the interests of both landlords and tenants. These laws cover many areas, including security deposits, how and when you can access the property, and what rights each party has. Local laws may also apply.

5. How to get help

There's no doubt that being a landlord is a lot of work. Fortunately, professional help is available.

Hiring a property management company may be a good option when you don't have the time or the expertise to manage your property directly, or when you live out of town. A property manager can handle all the details and legal requirements of renting out your property. Of course, this know-how comes at a cost, but it may be well worth it if you want to minimize the risks and maximize the rewards of being a landlord.

You'll also need to adhere to federal laws governing housing and discrimination. One of these laws is the Fair Housing Act that prohibits discrimination due to race, color, national origin, religion, sex, familial status, and disability. Another is the Fair Credit Reporting Act. You

You may also need the advice of an attorney and a tax professional who can help you navigate the complexities of owning rental property.

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Sincerely,
Keith Swift

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Managing Your Money in a Gig Economy
Charitable Giving After Tax Reform
What's the real return on your investments?
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Managing Your Money in a Gig Economy



As a contingent worker, you may be eligible for a number of tax deductions (e.g., start-up expenses, mileage), so be sure to keep good records. If you have multiple gig jobs, consider using a log to keep track of your income and work expenses.

According to the Bureau of Labor Statistics, 16.5 million people rely on contingent or alternative work arrangements for their income.¹ Often referred to as the "gig economy," these nontraditional or contingent work arrangements include independent contractors, on-call and temp agency workers, and those who sign up for on-demand labor through smartphone apps.

If you are a contingent worker, you need to pay close attention to your finances in order to make up for any gaps in earnings that may occur between jobs. In addition, you'll have to plan ahead for health-care costs, taxes, and saving for retirement, since you will have to shoulder these expenses on your own. The following are some tips for managing your money in a gig economy.

Prepare for slower periods between jobs

While establishing a cash reserve is an integral part of any financial strategy, it is especially important for contingent workers. You'll want to set aside enough money to cover unexpected expenses and large bills that may come due during slower months between jobs. A good strategy is to make it a habit to deposit a portion of your income in your cash reserve.

Make sure you maintain good credit

Even a robust cash reserve might not be able to weather a significant downturn in contingency work. That's why it's important for contingent workers to have access to credit to help them get through leaner times. Make sure that you maintain a good history by avoiding late payments on existing loans and paying off your credit card balances whenever possible.

Come up with a budget...and stick to it

Because your income flow fluctuates, you'll need to come up with a budget a bit differently than someone with a regular income. Your first step should be to determine your monthly expenses. If it helps, you can break them down into two types of expenses: fixed and discretionary. Fixed expenses are expenses that will not change from month to month, such as housing, transportation, and student loan payments. Discretionary expenses are expenses that are more of a "want" than a "need," such as dining out or going on a vacation. Once you come up with a number, you should determine how much income you need to keep up with all of your expenses.

For a contingent worker, it's especially important to stick to your budget and keep your discretionary expenses under control. If you are

having trouble keeping on track with your budget, consider ways to cut back on spending or find additional sources of income to make up for any shortfalls.

Consider your health insurance options

Unfortunately, as a contingent worker you don't have access to an employer-sponsored health plan. However, you do have health insurance options. If you are a recent college graduate and still on your parents' health insurance plan, you usually can stay on until you turn 26. If you are no longer on your parents' plan, you may be eligible for a government-sponsored health plan, or you can purchase your own plan through the federal or state-based Health Insurance Marketplace. For more information, visit healthcare.gov.

Plan ahead for taxes

In a traditional work arrangement, employers typically withhold taxes from employees' paychecks. As a self-employed worker, you'll have to plan ahead for federal and possibly state taxes so you don't end up with a large bill during tax time. The IRS requires self-employed individuals to make quarterly estimated income tax payments, so make sure you set enough money aside each time you get paid to go toward your tax payments. Because contingency income fluctuates from month to month, the IRS allows you to make unequal quarterly payments. In addition, you'll be responsible for paying a self-employment tax, so you need to account for that as well. For more information, visit the IRS website at irs.gov.

Don't forget about retirement

While being self-employed has benefits, it also comes with tough challenges. In particular, a lack of structured benefits, such as an employer-sponsored retirement plan, can lead contingency workers to end up sacrificing their retirement savings. And even though anyone with earned income can set up an IRA, the contribution limits are relatively low — \$6,000 in 2019 (\$7,000 if age 50 or older).

Fortunately, there are some options that may allow you to make larger retirement contributions. Consider contributing to a solo or individual 401(k) plan (up to \$56,000 in 2019, not counting catch-up contributions for those age 50 and over) or a SEP IRA (25% of your net earnings, up to \$56,000 in 2019).

¹ U.S. Bureau of Labor Statistics, Contingent and Alternative Arrangements Summary, June 2018



Charitable Giving After Tax Reform



Some of the recent changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from your charitable contributions. Incorporating charitable giving into your year-end tax planning may be even more important now. If you are age 70½ or older and have a traditional IRA, you may wish to consider a qualified charitable distribution.

Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

Income tax benefit of charitable giving

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$15,000. They would have a standard deduction of \$27,000 in 2019. The couple would effectively receive no tax savings for the first \$12,000 of charitable contributions they make. Even with a \$12,000 charitable deduction, total itemized deductions of \$27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$30,000. They would be entitled to a standard deduction of \$27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of \$10,000, they would reduce their income taxes by \$2,400 (\$10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Year-end tax planning

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

Qualified charitable distribution (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional \$100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

Caution: Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.

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What's the real return on your investments?

As an investor, you probably pay attention to *nominal return*, which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your *real return*.

Let's say you want to purchase a bank-issued certificate of deposit (CD) because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5%.¹ After factoring in the effect of inflation, the real return on your CD investment could

approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

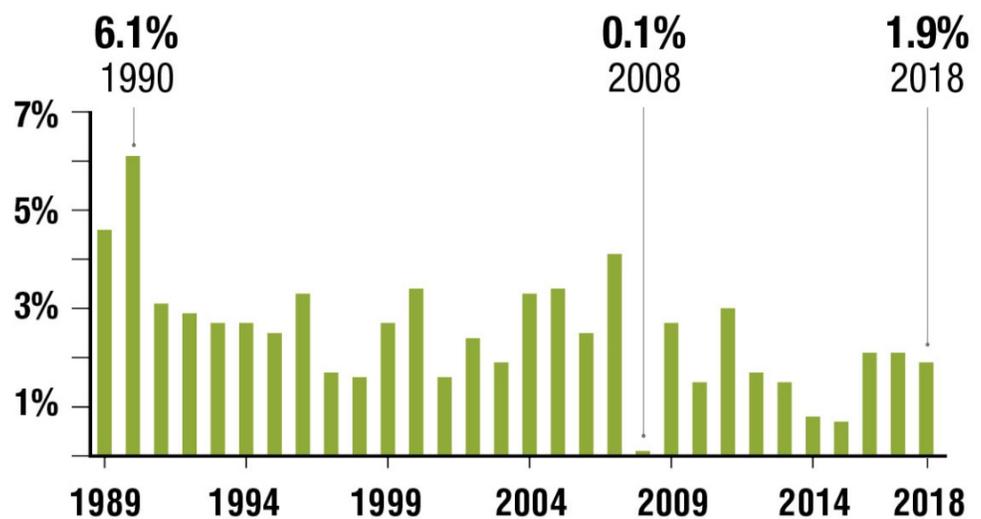
The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than their original cost.

¹ U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

Inflation Variation, Eroding Purchasing Power

Inflation averaged 2.5% for the 30-year period from 1989 to 2018. Although the recent trend is below the long-term average, even moderate inflation can reduce purchasing power and cut into the real return on your investments.

Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)