

FINANCIAL TID-BITTS

Information to chew on...



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Hi Everyone,

Fall is slowly moving in and creating some great days and evenings to enjoy the outdoors. With it being an even-numbered year, campaign season gives you an even better reason to stay outside. Enjoy it while we can!

Please pass along this month's articles to anyone you feel may have an interest in them. If you have questions or I can help in any way, please don't hesitate to call. Thank you.

Steve

September 2018

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Have You Made Any of These Financial Mistakes?



As people move through different stages of life, there are new financial opportunities — and potential pitfalls — around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. *Raiding your home equity or retirement funds.* It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

2. *Not quantifying your expected retirement income.* As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:

- Your retirement accounts such as 401(k) plans, 403(b) plans, and IRAs
- Pension income from your employer, if any
- Social Security (at age 62, at your full retirement age, and at age 70)

3. *Co-signing loans for adult children.*

Co-signing means you're 100% on the hook if your child can't pay, a less-than-ideal situation as you're getting ready to retire.

4. *Living an unhealthy lifestyle.* Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may reduce your health-care costs in the future.

Your 40s

1. *Trying to keep up with the Joneses.*

Appearances can be deceptive. The nice lifestyle your friends, neighbors, or colleagues enjoy might look nice on the outside, but behind the scenes there may be a lot of debt supporting that lifestyle. Don't spend money you don't have trying to keep up with others.

2. *Funding college over retirement.* In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that won't break the bank — for either of you.

3. *Not having a will or an advance medical*

directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. *Being house poor.* Whether you're buying your first home or trading up, think twice about buying a house you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family or a job change or layoff.

2. *Not saving for retirement.* Maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar. But now that you're in your 30s, it's essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.

3. *Not protecting yourself with life and disability insurance.* Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. *Living beyond your means.* It's tempting to splurge on gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.

2. *Not paying yourself first.* Save a portion of every paycheck first and then spend what's left over, not the other way around. And why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.

3. *Being financially illiterate.* Learn as much as you can about saving, budgeting, and investing now and you could benefit from it for the rest of your life.

Tax Benefits of Homeownership After Tax Reform



Recent tax reform legislation may have reduced the tax benefits of homeownership for some by (1) substantially increasing the standard deduction, (2) lowering the amount of mortgage debt on which interest is deductible, and (3) limiting the amount of state and local taxes that can be deducted. On the other hand, the tax benefits of homeownership may have increased for some because the overall limit on itemized deductions based on adjusted gross income has been suspended. You generally can choose between claiming the standard deduction or itemizing certain deductions (including the deductions for mortgage interest and state and local taxes). These changes are generally effective for 2018 to 2025.

Buying a home can be a major expenditure. Fortunately, federal tax benefits are still available, even after recent tax reform legislation, to help make homeownership more affordable. There may also be tax benefits under state law.

Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct the mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest on a loan secured by your home and used to buy, build, or substantially improve your home. For loans incurred before December 16, 2017, up to \$1 million of such "home acquisition debt" (\$500,000 if married filing separately) qualifies for the interest deduction. For loans incurred after December 15, 2017, the limit is \$750,000 (\$375,000 if married filing separately).

This interest deduction is also still available for home equity loans or lines of credit used to buy, build, or substantially improve your home. [Prior to 2018, a separate deduction was available for interest on home equity loans or lines of credit of up to \$100,000 (\$50,000 if married filing separately) used for any other purpose.]

Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. However, for 2018 to 2025, you can deduct a total of only \$10,000 (\$5,000 if married filing separately) of your state and local taxes each year (including income taxes and real estate taxes). For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including property taxes.

Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably

over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. But they can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to \$250,000 (\$500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

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Infographic: Working in Retirement

Do You Plan to Work in Retirement?

The 2018 Retirement Confidence Survey found that more than two-thirds of all workers surveyed expect that paid work will play a role as a source of retirement income. If you believe that working for pay will supplement at least some of your retirement income, consider the following facts.

1



More people are working beyond age 65

According to the Bureau of Labor Statistics, 37% of men and 28% of women between the ages of 65 and 69 were still in the workforce in 2017. In addition, 17% of men and 10% of women age 70 and older were still working.

2



Social Security imposes an "earnings limit"

If you plan to work and claim Social Security benefits before reaching your full retirement age (66 to 67, depending on year and month of birth), you will be subject to an earnings limit (\$17,040 in 2018). Above that limit, \$1 will be withheld from your benefit for every \$2 earned. In the year you reach full retirement age, you will lose \$1 for every \$3 earned above a higher limit (\$45,360 in 2018). Once you reach full retirement age, there is no reduction in benefits.

3



Income for older workers is on the rise

According to the U.S. Census Bureau, the average earnings for workers age 65 and older increased by 47.6% between 2000 and 2015, a far greater increase than that of any other age group.

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What is the federal funds rate?

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve (the Fed), usually overnight, in order to meet federally mandated reserve requirements. Basically, if a bank is unable to meet its reserve requirements at the end of the day, it borrows money from a bank with extra reserves. The federal funds rate is what banks charge each other for overnight loans. This rate is referred to as the federal funds effective rate and is negotiated between borrowing and lending banks.

The Federal Open Market Committee sets a target for the federal funds rate. The Fed does not directly control consumer savings or credit rates directly; it can't require that banks use the federal funds rate for loans. Instead, the Fed lowers the federal funds rate by buying government-backed securities (usually U.S. Treasuries) from banks, which adds to the banks' reserves. Having excess reserves, banks will lower their lending rates for overnight loans in order to make some interest on the excess reserves. To raise rates, the Fed sells securities to banks, decreasing the banks'

reserves. If enough banks need to borrow to meet overnight reserve requirements, banks with extra reserves will raise their lending rates.

The federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds. Banks also base the prime rate on the federal funds rate. Banks often use the prime rate as the basis for interest rates on deposits, bank loans, credit cards, and mortgages.

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. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.

Source: Federal Reserve, 2018