

Tax Changes Around the Home

How the Tax Cuts & Jobs Act impacted three popular deductions.

Three recent tax law changes impact homeowners and home-based businesses. They may affect your federal income taxes this year.

The SALT deduction now has a \$10,000 per year limit. You can now only deduct up to \$10,000 of some combination of (a) state and local property taxes or (b) state and local income taxes or sales taxes, annually. (Taxes paid or accumulated due to trade activity or business activity are exempt from the \$10,000 limit.)^{1,2}

If you have itemized for years and are continuing to itemize this year, this \$10,000 cap may be irritating, especially if there is no state income tax or a very high state income tax where you live. In the state of New York, for example, taxpayers who took a SALT deduction in 2015 deducted an average of \$22,169.^{1,2}

Connecticut, New Jersey, and New York all recently passed laws in reaction to the new \$10,000 limit,



This Issue:

- Tax Changes Around the Home **P.1**
- How Your Credit May Affect Your Life Insurance Premiums **P.1**
- Financial Elder Abuse: Perception vs. Reality **P.2**
- The Snowball Effect **P.3**

How Your Credit May Affect Your Life Insurance Premiums

Does your credit history partly determine the cost of your life insurance? It may. The potential for such a relationship may surprise you – and the relationship is not without controversy.

Insurers think a good credit history implies several things. It signals a consumer who routinely lives up to financial responsibilities. It telegraphs maturity in a young adult. It may also be characteristic of good health and a long life.¹

That last sentence may have you scratching your head. Weird as it may seem, some life insurance providers see an excellent borrowing history as a predictor of continuing healthiness and longevity. Following this train of thought a little further, a poor credit history may be judged to reflect either inattention to, or ignorance of, personal financial responsibility. The root causes of that inattention or ignorance might cause those consumers to die earlier than others.¹

Last year, LIMRA (a noted life insurance industry research firm) examined what kind of data insurance companies were reviewing as they considered life insurance applications. Twenty-eight percent stated that they used a predictive model encompassing consumer credit histories – one created by LexisNexis Risk Solutions, an analytics firm. Eighteen percent simply looked at consumer credit records directly. Eight percent relied on a TransUnion score for life insurance applicants.¹

In some states, credit history also influences auto and homeowners insurance rates. The better the behavior, the thinking goes, the less inclined that consumer will be to file a claim. (It is illegal to use credit history as a factor in setting auto insurance premiums in California, Hawaii, and Massachusetts.)¹

Other types of data may also be evaluated. In addition to credit history, insurance companies may also look at a consumer's driving record, criminal history, use of prescription medicines, and applications for life insurance coverage submitted in past years. All this may affect life insurance coverage and premiums.¹

Why are life insurance providers interested in all this information? They want to make their business models more efficient.

Life insurance underwriting usually takes weeks or months and includes a medical exam. In this digital age, the whole process looks very analog. By streamlining it around predictive models and abandoning or softening the exam requirement, insurers remove a psychological hurdle that stands in the way of some policy sales. Data-based underwriting can take as little as 48 hours.

So yes, your credit history may affect what you pay for life insurance. While it may not be a prime factor, it does exert an influence. That is another good reason to keep your credit score high.²

— Mico



1 - nerdwallet.com/blog/insurance/credit-can-affect-life-insurance-rates/ [6/18/18]
2 - investopedia.com/insurance/accelerated-underwriting-easy-life-insurance/ [3/7/18]

essentially offering taxpayers a workaround – cities and townships within those states may create municipal charities through which residents may receive property tax credits in exchange for charitable contributions.²

So far, the Internal Revenue Service is not fond of this. I.R.S. Notice 2018-54, released in May, warns that “despite these state efforts to circumvent the new statutory limitation on state and local tax deductions, taxpayers should be mindful that federal law controls the proper characterization of payments for federal income tax purposes.” Both the I.R.S. and the Department of the Treasury are preparing rules to respond to these state legislative moves.^{2,3}

The interest deduction on home equity loans is not quite gone. The Tax Cuts & Jobs Act seemed to suspend it entirely until 2026, but this winter, the I.R.S. issued guidance noting that the deduction still applies if a home equity loan is arranged to help a taxpayer “buy, build or substantially improve” the involved house. So, you may still deduct interest on a home equity loan if your receipts show that the borrowed amount is used for a new 30-year roof, a kitchen remodel, or similar upgrades. Keep in mind that the Tax Cuts & Jobs Act lowered the limit on the total home loan amount eligible for the interest deduction each year – it is now set at \$750,000. That cap applies to the combined home loans a taxpayer takes out for both a primary and secondary residence.^{1,4,5}



Financial Elder Abuse: Perception vs. Reality

Someday, you or your parents could be at risk.

- 1 - [marketwatch.com/story/youre-in-denial-if-you-think-you-or-your-elderly-parents-wont-be-scammed-2018-06-25](https://www.marketwatch.com/story/youre-in-denial-if-you-think-you-or-your-elderly-parents-wont-be-scammed-2018-06-25) [6/25/18]
- 2 - [cnbc.com/2018/05/15/advisors-are-asking-their-clients-for-a-trusted-contact-choose-wisely.html](https://www.cnbc.com/2018/05/15/advisors-are-asking-their-clients-for-a-trusted-contact-choose-wisely.html) [5/15/18]
- 3 - [wealthmanagement.com/high-net-worth/new-senior-safe-act-encourages-reporting-financial-abuse](https://www.wealthmanagement.com/high-net-worth/new-senior-safe-act-encourages-reporting-financial-abuse) [5/29/18]

You may know victims of financial elder abuse.

According to a new Wells Fargo Elder Needs Survey, almost half of Americans do.¹

As you read or hear stories about seniors being financially exploited, you may think: not me, I would never fall prey to that in my old age. Your parents? Same thing. They are too smart and too vigilant to be taken for a ride by a con artist or an unprincipled relative or caretaker.

This perception is only natural. When we are young, we never picture ourselves, or our parents, in decline. We are told 60 is the new 40, and 80 is the new 50. Perhaps so, but as some of the Wells Fargo survey data bears out, we may be overconfident in our ability to evade financial scams as we age.

Nearly 800 Americans aged 60 and older were asked if they believed senior citizens were vulnerable to financial abuse. Ninety-eight percent of the respondents said yes, but 81% were confident that it would never happen to them. Just 10% thought they were susceptible to such exploitation, and only 24% even worried about the possibility.¹

The surveyors also contacted nearly 800 Americans aged 45-59 with elderly parents, and 75% of these Gen Xers and baby boomers felt their moms and dads would never succumb to such fraud.¹

In short: financial elder abuse might happen to other people someday, but not to us.

This assumption may be flawed – after all, half the people Wells Fargo contacted said that they knew elders who had been financially exploited. Any perception that strangers are committing most of these crimes may be equally unfounded. The Jewish Council for the Aging states that 66% of financial elder abuse is carried out by family members, friends, or trusted third parties.¹

What actions can be taken to try and shield your parents from such abuse?

As a first step, you and your parents can meet with an estate planning attorney to put a signed financial power of attorney in place (if one is absent). Should your mom or dad lose the capacity to make financial decisions on their own, this document can authorize you (or another family member) to make worthy decisions on their behalf.¹

There are also software programs, such as EverSafe, that are designed to pinpoint odd financial transactions for a household or business. Such activity is flagged, and a financial advocate for the person or business is then signaled.¹

You can also meet the bank or investment professional who works with your parent(s) and request that you become a trusted contact on their account. You can do this by filling out a form.²

You may already be named as a trusted contact. Since February, the Financial Industry Regulatory Authority (FINRA) has required investment firms to ask their clients to provide the name and information of such persons, though clients do not have to comply with the request.²

The financial services industry is taking further steps in this regard. In May, President Trump signed the Senior Safe Act into law. This legislation, introduced by Sen. Susan Collins of Maine, guides banks and investment firms to train their financial profession to spot and report what appears to be shady financial activity. To encourage such reporting, it gives them a degree of immunity from liability and breaches of privacy laws.³

The bottom line: act now to guard against the risk of elder financial abuse. It happens too often, and though it may seem improbable today, that may not be the case tomorrow – for your parents or you.

— Shawn





The Snowball Effect

Save and invest, year after year, to put the full power of compounding on your side.

1 - time.com/money/5204859/retirement-investments-savings-compounding/ [3/21/18]
2 - fool.com/investing/2018/05/16/how-to-invest-1000-a-month.aspx [5/16/18]

Have you been saving for retirement for a decade or more? If so, something terrific may likely happen with your IRA or your workplace retirement plan account in the foreseeable future. At some point, its yearly earnings should begin to exceed your yearly contributions.

Just when could this happen? The timing depends on several factors, and the biggest factor may simply be consistency – your ability to keep steadily investing and saving. The potential for this phenomenon is apparent for savers who start early and savers who start late. Here are two mock scenarios.

Christina starts saving for retirement at age 23. After college, she takes a job paying \$45,000 a year. Each month, she directs 10% of her salary (\$375) into a workplace retirement plan account. The investments in that account earn 6% per year. Thirteen years later, Christina is still happily working at the same firm and still regularly putting 10% of her pay into the retirement plan each month. She now earns \$58,200 a year, so her monthly 10% contribution has risen over the years from \$375 to \$485.¹

The ratio of account contributions to account earnings has tilted during this time. After eight years of saving and investing, the ratio is about 2:1 – for every two dollars going into the account, a dollar is

being earned by its investments. During year 13, the ratio hits 1:1 – the account starts to return more than \$500 per month, with a big assist from compound interest. In years thereafter, the 6% return the investments realize each year tops her year’s worth of contributions to the principal. (Her monthly contributions have grown by more than 20% during these 13 years, and that also has had an influence.)¹

Fast forward to 35 years later. Christina is now 58 and nearing retirement age, and she earns \$86,400 annually, meaning her 10% monthly salary deferral has nearly doubled over the years from the initial \$375 to \$720. This has helped her build savings, but not as much as the compounding on her side. At 58, her account earns about \$2,900 per month at a 6% rate of return – more than four times her monthly account contribution.¹

Lori needs to start saving for retirement at age 49. Pragmatic, she begins putting \$1,000 a month into a workplace retirement plan. Her account returns 7% a year. (For this example, we will assume Lori maintains her sizable monthly contribution rate for the duration of the account.) By age 54, thanks to compound interest, she has \$73,839 in her account. After a decade of contributing \$12,000 per year, she has \$177,403. She manages to work

until age 69, and after 20 years, the account holds \$526,382.²

These examples omit some possible negatives – and some possible positives. They do not factor in a prolonged absence from the workforce or bad years for the market. Then again, the 6% and 7% consistent returns used above also disregard the chance of the market having great years.

Repeatedly, investors are cautioned that past performance is no guarantee or indicator of future success. This is true. It is also true that the yearly total return of the S&P 500 (that is, dividends included) averaged 10.2% from 1917-2017. Just stop and consider that 10.2% average total return in view of all the market cycles Wall Street went through in those 100 years.²

Keep in mind, when the yearly earnings of your IRA or employer-sponsored retirement plan account do start to exceed your yearly contributions, it is still prudent to continue making them. You should keep the momentum of your savings effort going to maintain your compounding potential.

— Barbie



The home office deduction is gone, unless you are self-employed. Before 2018, if you dedicated an area of your home solely to business use and defined it as your principal place of business to the I.R.S., you could claim a home office deduction on Schedule A. This was considered a miscellaneous itemized deduction. Unfortunately, the Tax Cuts & Jobs Act did away with miscellaneous itemized deductions. If you work for yourself, though, you can still claim the home office deduction using Schedule C, the form used to report income or loss from a business activity or a profession.⁵

Are you strategizing to maximize your 2018 federal tax savings? Are you looking for ways to legally reduce your federal and state tax obligations? Talk to a financial professional to gain insight and plan for this year and the years ahead.

— Jim



1 - investopedia.com/taxes/how-gop-tax-bill-affects-you/ [1/3/18]
2 - cnbc.com/2018/05/23/irs-treasury-have-set-their-sights-on-blue-states-tax-workarounds.html [5/23/18]
3 - irs.gov/pub/irs-drop/n-18-54.pdf [5/23/18]
4 - nytimes.com/2018/03/09/your-money/home-equity-loans-deductible.html [3/9/18]
5 - fool.com/taxes/2018/05/20/say-goodbye-to-the-home-office-deduction-unless-yo.aspx [5/20/18]

Fun Facts about the Piggy Bank

- * They originally got their name from the clay called “pygg” that was used to make them
- * The biggest piggy bank in the world is in Germany and stands over 4 stories high
- * The Money Box Museum in Amsterdam has a collection of over 12,000 piggy banks
- * Piggy banks are often given on New Year’s Day as good luck for the coming year





9550 Warner Ave Ste 300
Fountain Valley, CA 92708
714.962.8000
714.962.7853 fax
www.IWMPartners.com


PRST STD
U.S. POSTAGE
PAID
Torrance, CA
Permit #731

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

The Financial Professionals at IWM Partners are registered representatives with and securities offered through LPL Financial, member FINRA / SIPC.



Upcoming Workshop



*Check out our newly updated website www.iwmpartners.com
for upcoming events and important notices.*

To request a formal invitation to one of the events above, please email info@iwmpartners.com or by calling us at (714) 962-8000