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CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

Selling An Investment Property?

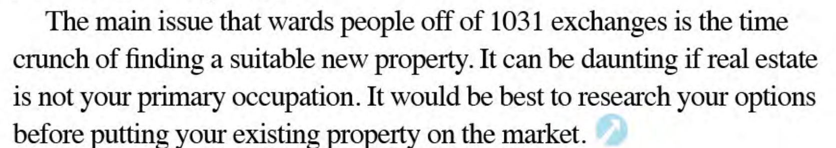
Courtesy of Craig Willeke, LUTCF, CLTC

When you sell an investment property, you owe capital gains tax on the proceeds. This can take a big bite—the federal top rate is 20 percent.

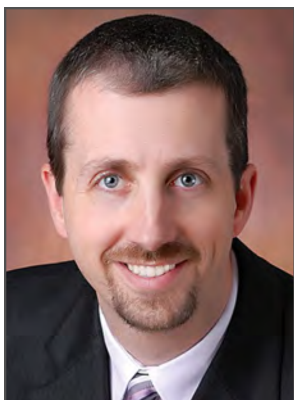
However, there is a way to defer paying that tax—it's called a 1031 exchange. It allows you to put off capital gains tax if you use the proceeds of the sale to buy other rental real estate.

You must engage the services of a firm that specializes in such exchanges before you close on the sale of your investment property. They will charge a fee to hold onto the money from the sale until you are ready to spend it.

After closing, the clock starts ticking. The rules are complicated, so check with your advisors, but you could have as little as 45 days to find another property for the exchange. It must be an investment property, not a timeshare, shares in a REIT, a second home, renovations or improvements.



The main issue that wards people off of 1031 exchanges is the time crunch of finding a suitable new property. It can be daunting if real estate is not your primary occupation. It would be best to research your options before putting your existing property on the market.



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Beware new twist on fake job interview scams. Con artists now use online video-conferencing services such as Skype and Yahoo Messenger. During an interview, you are asked to download a file pertaining to the job. The file contacts malware that may allow the scammer to access your passwords and financial accounts. *Self-defense:* If you are asked to download a file by a job interviewer, say, "I can't do that from this computer at the moment." Afterward, check whether the company is legitimate, and call it directly.

Source: Gerri Walsh in Bloomberg.com 2018

Keep your valuables safe while you travel. *Avoid in-room hotel safes* — too many hotel employees may have access to them with a master combination. If you want something kept locked up, put it in the hotel's central safe, since only a small number of people have access. *Stay alert at all times* — if you need to look at your phone for directions, go into a store or coffee shop instead of stopping on the street. *Do not post pictures on social media during your trip* — thieves monitor accounts, evaluate the way users are dressed to decide whether to target them and have the tools to find your exact location.

Source: Bottom Line Personal magazine 2018

"The borrower is servant to the lender."

— Solomon

Changes To Capital Gains Tax and UGMA

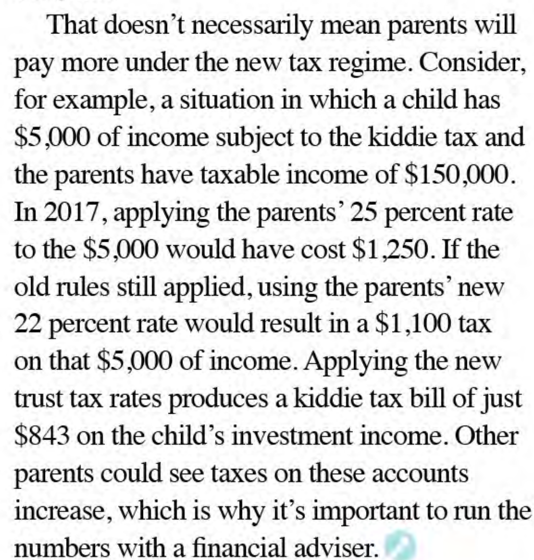
By Sandra Block, Kiplinger's Personal Finance

As The Tax Cuts and Jobs Act left capital gains rates the same, but how that rate is determined has been changed under the new law.

Most people with taxable accounts will continue to pay 15 percent on long-term capital gains and qualified dividends. Significantly, the tax law also preserves the 0 percent capital gains rate for eligible taxpayers, a popular tax-saving feature for retirees with taxable investments but not a lot of other income.

The law, though, may change which rate you pay. In the past, the rate was based on your tax bracket. Taxpayers in the 10 percent and 15 percent brackets paid 0 percent, and those in the top tax bracket paid 20 percent. Now, the rate will be based on income thresholds. For 2018, the 0 percent rate for long-term gains and qualified dividends will apply to taxpayers with taxable income that's less than about $38,600 on individual returns and about $77,200 on joint returns. Taxpayers with taxable income that's more than those amounts but less than $425,800 ($479,000 for married couples) will pay 15 percent, and taxpayers with higher income will pay 20 percent.

The law also revises the way the so-called kiddie tax is calculated, and that could make custodial accounts under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) more (or less) expensive for some families. The tax applies to investment income that exceeds $2,100 earned by children younger than 19 or, if full-time students, younger than 24. In the past, investment income over that amount was generally taxed at the parents' rate. Now it will be taxed at the same rates as for trusts and estates, with a top rate of 37 percent of income over $12,500.



That doesn't necessarily mean parents will pay more under the new tax regime. Consider, for example, a situation in which a child has $5,000 of income subject to the kiddie tax and the parents have taxable income of $150,000. In 2017, applying the parents' 25 percent rate to the $5,000 would have cost $1,250. If the old rules still applied, using the parents' new 22 percent rate would result in a $1,100 tax on that $5,000 of income. Applying the new trust tax rates produces a kiddie tax bill of just $843 on the child's investment income. Other parents could see taxes on these accounts increase, which is why it's important to run the numbers with a financial adviser.

Are Investors Too Blithe About Risk?

By Jill Schlesinger, Tribune Content Agency

On Jan. 19, the Friday before the government shut down, U.S. stock indexes closed at new records, raising the question: Why don't investors care about a government shutdown?

The answer may be that they don't care about a number of risks that exist.

What could go wrong?

In its recently published historical analysis of the financial crisis, the FDIC noted, "Prosperous times can mask the building up of risks." So what could upend the rosy outlook?

Although a shutdown may not freak out investors, an impasse over the debt ceiling is another matter. In 2011, when the debt ceiling debate caused the rating agency Standard & Poor's to downgrade the creditworthiness of the United States, stocks tumbled by 19 percent from their recent highs [as measured by the S&P 500 index]. Without a congressional deal to increase the nation's borrowing limit, early March could be a dangerous time for stock market investors.

The biggest risk to the bull market is that growth will be stronger than expected, which would prompt the Fed to raise interest rates faster than anticipated. Recently, the renowned economist Martin Feldstein wrote an op-ed entitled that "Stocks are Headed for a Fall." [Wall Street Journal] Feldstein argued that the central bank, which in his opinion has kept interest rates too low for too long, will be forced to hike. Higher rates would raise borrowing costs for companies, and if bond yields finally rise, investors might be induced to take their stock market profits and rotate them into safer bonds. Hence the fall.

In the bigger picture, the World Economic Forum released its 2018 Annual Global Risks Report, which highlighted environmental risks such as extreme weather events, natural disasters, cyberattacks and geopolitical volatility as potential problems that could upend the world's forward economic progress.

Finally, the rally has started to spark some familiar "fear of missing out" (FOMO) investor behavior, which often is associated with market tops, not to mention a bit of recency bias, which is the propensity to be influenced by what you have seen in the recent past (i.e., stocks have gone up recently, therefore you believe they will continue to rise).

What to do: Your best defense is to acknowledge that risks always exist and build a plan that can see you through the good and bad times. If you need to access your money within the next year for a finite obligation (tuition, home down payment, car purchase, etc.), free up the cash necessary to meet it now.

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"People hate the rich. I need to make some bad investments, bankrupt my company, fire everyone and go out of business so people will like me again."

Little-known defense against bank fraud:
Checking-account reports. These reflect your check-writing and banking history and will show whether thieves have opened phony accounts in your name. Checking-account reporting companies — like credit-reporting agencies — must give you one free report a year at your request. The four major ones are Certegy Check Services, ChexSystems, Early Warning Services and TeleCheck.
Source: MoneyTalksNew.com 2018

Best state for retirees:
New Hampshire. That is based on an analysis that considered eight factors, in this order of importance — cost of living, healthcare quality, crime, cultural vitality, weather, taxes, senior citizens' well-being and prevalence of other seniors. New Hampshire scored sixth-worst for weather but placed first overall because it came in with high scores for well-being (second best), crime (third) and health care (fourth). *The other top places to retire:* Colorado, Maine, Iowa and Minnesota. Among popular retirement destinations, Arizona came in at number 12, Florida at number 17 and Nevada at number 44.
Source: Bankrate.com 2018

"The safe way to double your money is to fold it over once and put it in your pocket."
— Frank Hubbard

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Home Buying Vs Renting

By Patricia Mertz Esswein, Kiplinger's Personal Finance

This is an interview with Eli Beracha, an associate professor at Florida International University. He is coauthor of "A Revision of the American Dream of Home Ownership," published in the Journal of Housing Research.

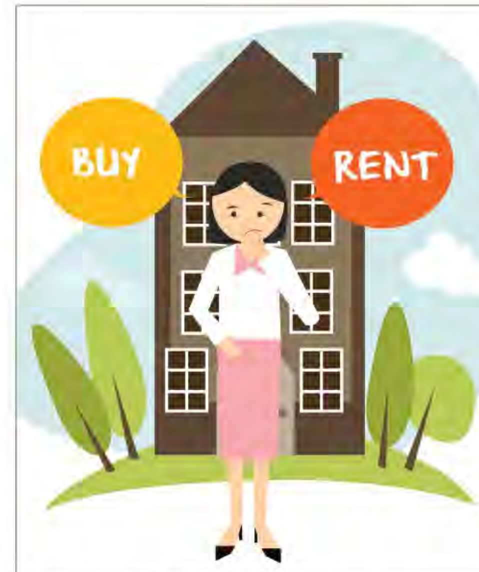
Q: ***Why do homeowners accumulate more wealth than renters?***

A: Homeowners must make a substantial down payment when they buy and a mortgage payment every month. Part of every payment goes to pay loan principal, so that's like having a mandatory savings account. Plus, they've purchased an asset that, on average, they hold for a long period. None of those actions represents the best way to accumulate wealth, but together they are better than doing nothing. Most renters spend the difference between renting and owning a home on other things. So, for the average American, it's better to own, even with the changes to the tax law.

Q: ***How does home-price appreciation compare with the return from investing in stocks and bonds over time?***

A: People believe that home-price appreciation in the U.S. is much higher than it really is. Over the long run it exceeds inflation by about one-quarter to one-half of a percentage point per year. Increases in home prices and inflation must, by definition, be similar because housing is the biggest component in how the Federal Reserve calculates inflation.

Homeowners also underestimate the cost of ownership. They overlook how much they pay for expenses such as maintenance and closing and selling costs, and they don't value their time and effort.



Q: ***So what must renters do to accumulate as much wealth as homeowners?***

A: We found that renters could, on average, accumulate more wealth than homeowners if they saved and invested the equivalent of a down payment plus the difference between a monthly mortgage payment and rent in a diversified portfolio of stocks and bonds. But the reality is, they don't.