VIRGINIA ASSET GROUP

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Hi Everyone,

We are all hoping March comes, and goes, like a lamb. Our fingers are crossed for sure. If you have any suggestions for topics you would like to see covered in this newsletter, please let me know. As always, thank you for your continued trust in me and my team.

Darin

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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.

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.

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.

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 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.

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.

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

Quiz: How Much Have You Thought About Health and Health-Care Costs in Retirement?

According to the 2018 Senior Report from America's Health Rankings, social isolation is associated with increased mortality, poor health status, and greater use of health-care resources. The risk of social isolation for seniors is highest in Mississippi and Louisiana and lowest in Utah and New Hampshire.

When planning for retirement, it's important to consider a wide variety of factors. One of the most important is health and its associated costs. Thinking about your future health and the rising cost of health care can help you better plan for retirement in terms of both your finances and overall well-being. This quiz can help you assess your current knowledge of health and health-care costs in retirement.

Questions

1. Health-care costs typically rise faster than the rate of inflation.

True.

False.

2. You could need more than $500,000 just to cover health-care costs in retirement.

True.

False.

3. Medicare covers the costs of long-term care, as well as most other medical costs.

True.

False.

4. The southern, warmer states are generally the healthiest places for seniors to live.

True.

False.

5. If you're concerned about health-care costs in retirement, you can just delay your retirement in order to maintain your employer-sponsored health benefits.

True.

False.

Answers

1. True. The average inflation rate from 2010 to 2017 was less than 2%, while the average spending on prescriptions, doctors, and hospitals grew between 4% and 5%. From 1970 to 2017, annual per-capita out-of-pocket spending on health care grew from about $600 to approximately $1,100 (in 2017 dollars).[1]

2. True. In 2017, America's Health Rankings projected that a 45-year-old couple retiring in 20 years could need about $600,000 to cover their health-care costs, excluding the cost of long-term care. The same report projected that about 70% of those age 65 and older will need some form of long-term care services. And according to the Department of Health and Human Services, the average cost of a one-year stay in a nursing home (semi-private room) was $82,000 in 2016.[2]

3. False. Original Medicare Parts A and B help cover inpatient hospital care, physicians' visits, preventive care, certain laboratory and rehabilitative services such as physical therapy, and skilled nursing care and home health care that are not long term. Medicare Part D helps cover the cost of prescriptions (within certain guidelines and limits). Medicare does not cover several other costs, including long-term care, dental care, eye exams related to eye glasses, and hearing aids. Seniors may need to purchase additional insurance to cover these and other services not covered by Medicare.[3]

4. False. Interestingly, America's Health Rankings found that the five healthiest states for seniors were (1) Utah, (2) Hawaii, (3) New Hampshire, (4) Minnesota, and (5) Colorado.[4]

5. Maybe true, maybe false. Many people believe they will work well into their traditional retirement years, both to accumulate as large a nest egg as possible and to take advantage of employer-sponsored health benefits (if offered beyond Medicare age). While this is an admirable goal, you may not be able to control when you actually retire. In a 2018 retirement survey, nearly 70% of workers said they planned to work beyond age 65; 31% said they would retire at age 70 or older. But the reality is that nearly 70% of current retirees retired before age 65. Many of those individuals retired earlier than planned due to a health problem, disability, or other unforeseen hardship.[5]

The bottom line is that while it's hard, if not impossible, to predict your future health needs and health-care costs, it's important to work these considerations into your overall retirement planning strategies. Take steps now to keep yourself healthy — eat right, exercise, get enough sleep, and manage stress. And be sure to account for health-care expenses in your savings and investment strategies.

[1] Consumer Price Index, Bureau of Labor Statistics, 2018, and Peterson-Kaiser Health System Tracker, 2018

[2] Preparing for Health Care Costs in Retirement, America's Health Rankings, 2017, and LongTermCare.gov, 2018

[3] Medicare.gov

[4] Senior Report, America's Health Rankings, 2018

[5] 2018 Retirement Confidence Survey, Employee Benefit Research Institute

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Nine Things a Business Owner Should Know After Tax Reform

A business owner should be aware of some recent federal tax legislation changes. Many of the changes can affect the bottom line for the business and the business owner. A business owner may wish to reconsider some of his or her tax strategies.

Note: The corporate tax provisions have been made permanent, but most other changes affecting individual taxpayers are scheduled to expire after 2025.

As a business owner, you should be aware of some recent federal tax legislation changes. Many of the changes can affect the bottom line for the business as well as you as the business owner — some in a good way and some in a bad way.

1. The taxable income of a C corporation is now taxed at a flat 21% rate. Previously, the tax rates generally ranged from 15% to 35% (but some income was taxed as high as 39%). There is no longer a corporate alternative minimum tax.

2. Individual income tax rates have been reduced to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Net long-term capital gains and qualified dividends continue to be taxed generally at 0%, 15%, and 20%, depending on the amount of your taxable income.

3. A new pass-through income deduction is available to many owners of sole proprietorships, partnerships, and S corporations. This deduction is for up to 20% of qualified business income (QBI) from such business entities. If your taxable income exceeds certain thresholds, the deduction is limited based on factors such as the wages and qualified property of the business. Additionally, individuals with higher taxable incomes may not be able to claim a deduction if the business involves the performance of services in fields that include health, law, accounting, performing arts, consulting, athletics, and financial services, among others.

4. Small businesses have the option of expensing certain purchases under IRC Section 179 rather than depreciating the value of the purchases over time. Up to $1,020,000 (in 2019) of qualifying Section 179 property can now be expensed. The amount that can be expensed is reduced to the extent that qualifying property exceeds $2,550,000 (in 2019). These amounts are indexed for inflation and may increase in future years.

5. When a business purchases an asset, the business can generally deduct the cost of the asset over a period of time. For qualified property purchased after September 27, 2017, first-year bonus depreciation of 100% is available if the property is placed in service before 2023 (2024 for certain property). The 100% allowance is phased down by 20% each year after 2022 (or 2023 for certain property). The 100% bonus depreciation essentially allows business property to be expensed, rather than deducting the cost of depreciable property over a number of years.

6. Under a new provision, an excess business loss cannot be deducted. An excess business loss is equal to the amount by which your total deductions from all of your trades and businesses exceed your total gross income and gains from all of your trades and businesses plus $250,000 ($500,000 in the case of a joint return). As before, losses from a passive trade or business activity may be limited under the passive loss rules. The passive loss rules are applied before this new limitation is determined. Disallowed excess business losses are treated as a net operating loss carryover to future tax years.

7. A net operating loss generally arises when a taxpayer's deductible expenses for a year exceed its gross income. Previously, a net operating loss for the current year could be carried back to prior tax years and forward to future tax years as a deduction against taxable income. The deduction for a net operating loss for a taxpayer other than a C corporation is now limited to 80% (previously 100%) of taxable income computed without regard to this deduction. Even though a net operating loss can no longer be carried back two years, it can still be carried forward for up to 20 years, subject to the deduction limit in the carryover years. Certain farming losses may now be carried back only two years (rather than five years), as well as carried forward for 20 years.

8. A like-kind exchange provision allows property to be exchanged tax-free under certain circumstances. The general like-kind exchange provision now applies only to exchanges of real property held for use in a trade or business or for investment and not to exchanges of personal or intangible property. For example, assume you own your office building without a mortgage. You are interested in moving to a new office building. If you sold your current office building, you would recognize capital gains. If instead you exchanged your current office building for the new office building in a like-kind exchange without receiving any cash or non-like-kind property, you would not recognize any capital gains at the time of the exchange.

9. A deduction is no longer allowed for entertainment expenses. Food and beverages provided during entertainment events are not considered entertainment if purchased separately from the event. Taxpayers may still deduct 50% of the expenses for business meals.

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What records do I need to file my taxes?

Tax season is a good time to get your financial records in order. And whether you are doing it on your own or hiring a tax preparer to assist you, you'll want to make sure that you have all of your information organized to make the process of filing your taxes easier.

Sometime in January you should have received your W-2 form from your employer. Your W-2 form lists your gross income, taxable income, and the amount of state and federal taxes withheld from your pay. It also will show any 401(k), health insurance, and flexible spending account contributions you have made.

Around the same time that you got your W-2, you should also have received 1099 forms from financial institutions for any dividend and interest income. And if you have a mortgage, your mortgage servicer sent you a 1098 form, which contains information on interest paid along with other mortgage-related expenses.

In addition to the above-referenced forms, you'll need to provide your personal information, including your date of birth and Social Security or tax ID number. If you are married and/or have children, you will need their information as well. You should also have documents that list any additional sources of income, such as self-employment, rental, retirement, or unemployment income.

Depending on whether you qualify for any tax deductions or credits, you may also need the following information:

- Records of cash and noncash charitable donations
- Amounts paid toward medical, dental, and vision expenses
- Federal, state, and local taxes paid (including quarterly estimated tax payments)
- Dependent-care provider information
- Receipts for education-related expenses

Make sure that you keep all your financial records in a safe and easy-to-find place. Being organized is not just a good idea during tax time, but is also helpful at other times of the year (e.g., when you apply for a loan or financial aid for college).

...AND I HAVE 75 MORE DEPENDENTS AT HOME.

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