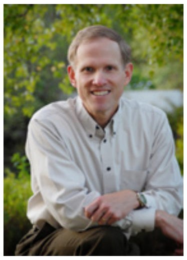
FOCUSING ON FINANCIAL, TAX AND MONEY MATTERS



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To Buy or Not To Buy: EXPLORING THE LEASING OPTION

Automobile leasing has grown in popularity over the past decade, but many people still hesitate to enter into a lease. This may be because there are so many factors to consider that it seems easier to buy a vehicle. Under the right circumstances, however, leasing an automobile can save you considerable money, and even taxes. No one can tell you which option is better without knowing your particular situation, but these factors may impact your decision.

How Does Leasing Work?

When you lease an automobile, you only pay for the portion of it that you use, or the amount by which it depreciates. Many people hesitate because, at the end of the lease, they don't own anything. But, that's exactly why lease payments are lower than loan payments. You're not buying the leftover value in the car—you're buying only what you use.

A lease payment consists of a depreciation charge and a finance charge. The finance charge is much like the interest you would pay on a car loan. The depreciation charge is determined by dividing the value of the car that you use by the number of months in the lease. Without considering the tax effects, the short-term cost of leasing compared to buying is about the same. This assumes that you sell your car after the loan is paid off for its full market value. But as you well know, this is often not the case, especially if the car is used as a trade-in. If you are apt to keep your car for 10 years, then buying may be your best option. What about the tax effects? Ultimately, the *tax cost* of leasing versus buying may be about the same. However, the timing of when you get the deductions can be greatly impacted by your decision.

Claiming Tax Deductions on Leases

Because you do not own a car that you lease, you are not allowed to depreciate it. You can, however, deduct at least some of the cost of operating a car leased primarily for

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Home, Valuables, AND YOUR CAMCORDER

Could you list and accurately value all your personal property from memory? If you needed to file an insurance claim, how would you prove your loss?

The best way to protect yourself is to make a complete inventory of all your possessions. A written description should include the date of acquisition, original cost, and any improvements. Serial numbers, if available, should be recorded, and any receipts should be attached to the list. To make the task more manageable, tackle one room at a time. Be sure to include items that may be stored in closets or storage facilities.

If you have a camcorder, you can create additional documentation of your home and belongings for insurance purposes. This record, which can be used as evidence in case of theft, fire, or damage, should include the following:

- A complete scan of all rooms in your house, the outside grounds, the attic, the basement, and the garage.
- Close-ups of all valuable items such as artwork, jewelry, and antiques. Be sure to zoom in on serial numbers of stereos, television sets, and other electronic appliances.
- Audio commentary of details that may not be visible.

If you don't have a camcorder, there are companies that can do the recording for you. Ask your friends and associates for recommendations of reputable companies. Never allow an unknown individual to record your belongings.

Also, consider using your camera or cellphone and recording a combination of still photos and videos even if the videos taken on these devices are somewhat limited compared to those made with a camcorder.

Store the SD card or removable flash memory (which holds the digital images created by your camcorder) along with your comprehensive written list, in a safe place away from home, such as a locked file cabinet at your office or your bank safe-deposit box. For extra safety, you may want to make copies and store them in separate locations.

Once you have established a complete inventory, it should be fairly easy to do periodic updating. Finally, be aware that visual documentation *alone* may not be enough to prove the loss of valuable items. Contact one of our qualified insurance professionals for additional suggestions on how to best protect your possessions. **20/20**

Understanding HOW INTEREST WORKS

Over the course of your life, it may be necessary to borrow funds in order to accomplish your financial goals. However, the cost of borrowing money is interest. When you take out a loan, you receive a lump sum of money up front and are obligated to pay it back in a predetermined period of time, usually with interest. You may end up owing more than you borrowed because of the interest. But the tradeoff is receiving the amount you need to buy a house, finance a college education, or start a business. Due to interest adding up significantly over time, it is important to consider if the debt is ultimately worth the cost over the long term before signing on the dotted line.

To a lender, interest represents the compensation for lending money. In addition to giving up a certain amount of spending ability, a lender assumes certain risks. One obvious risk is that the borrower will not pay back the loan in a timely manner, if ever. A second risk is inflation. In general, prices tend to rise over time. As a result, the future spending power of the money borrowed is reduced because more money will be needed to purchase the same amount of goods and services when the lender regains control of the funds. Interest helps to cushion the effects of inflation for the lender.

While lower interest rates tend to encourage borrowing, and higher rates encourage saving and investing, understanding the ways interest can help or hinder you may facilitate making appropriate financial decisions as you pursue your future objectives. **20/20**

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TO BUY OR NOT TO BUY: EXPLORING THE LEASING OPTION

business purposes. Keep in mind that you are only allowed to deduct the business portion of the costs of a lease if the car is also used for personal purposes, such as commuting.

You have two options for figuring your deductible expense on a business vehicle that is leased for more than 30 days: the standard mileage rate allowance or actual expenses method. The standard mileage rate allowance is easier to calculate, but it may provide less tax relief than the actual expenses method if you do not drive a lot of miles or if your car is relatively expensive.

The standard mileage allowance is a cents-per-mile allowance that takes the place of deductions for lease payments; vehicle registration fees; and the expenditures on gas, oil, insurance, maintenance, and repairs. The standard mileage allowance rate for business use of a car—leased or owned—is 53.5 cents a mile in 2017. To figure out your deduction, simply multiply the rate by the number of miles driven.

The actual expenses method generally allows you to deduct all out-of-pocket expenses for operating your car for business, from lease payments to repair costs. If the car you have leased has fair market value in excess of the luxury vehicle threshold according to the IRS, your deduction is reduced by a so-called "inclusion amount," which is added to your gross income. This additional sum brings your deduction roughly in line with the depreciation you would have been able to claim as the car's owner.

Inclusion amount tables in IRS Publication 463 can help you determine the inclusion amount that applies in your case. Because the inclusion amounts increase from year to year in the course of a lease, you may want to consider taking out a lease with a term of no more than two years.

Any advance payments on the lease must be deducted over the entire lease period. If you take out a lease with an option to buy, you can deduct the payments if the arrangement is set up as a lease. If, however, the arrangement amounts to a purchase agreement, the payments are not deductible.

Leases—Hidden Traps

Despite the limits on deductions for luxury vehicles, the available tax breaks for business owners are generous enough to make leasing an attractive alternative to buying—especially if you want to change cars frequently. Before you sign on the dotted line, consider the potential pitfalls involved in leasing:

Mileage limits: All leases have mileage limits, usually 12,000 or 15,000 miles. If it's probable that you'll rack up more miles, you could face costly penalties. Try to negotiate the mileage limit up in exchange for higher lease payments. Or, buy the car.

Open-end leases: In an open-end lease, the residual value is re-determined at the end of the lease. If the residual value is lower than initially projected, you have to make up the difference. Closed-end leases avoid this problem, but your payments may be higher.

Early termination: When leasing, be sure to keep the car for the entire lease period. Penalties for early termination are severe and are usually difficult to get out of. If you're not sure how long you'll keep the car, consider a shorter lease term or purchase it.

While laws require dealers to disclose more information on leases, key information can be buried in the fine print or omitted completely, like the interest rate that you are being charged. Be sure you completely understand the terms before signing on the dotted line.

Leasing your next automobile can either make a lot of sense, or it can be a big mistake. Your tax professional can help you consider all of the factors and make the right choice. **20/20**

Getting Up to Speed
AS RETIREMENT DRAWS NEAR

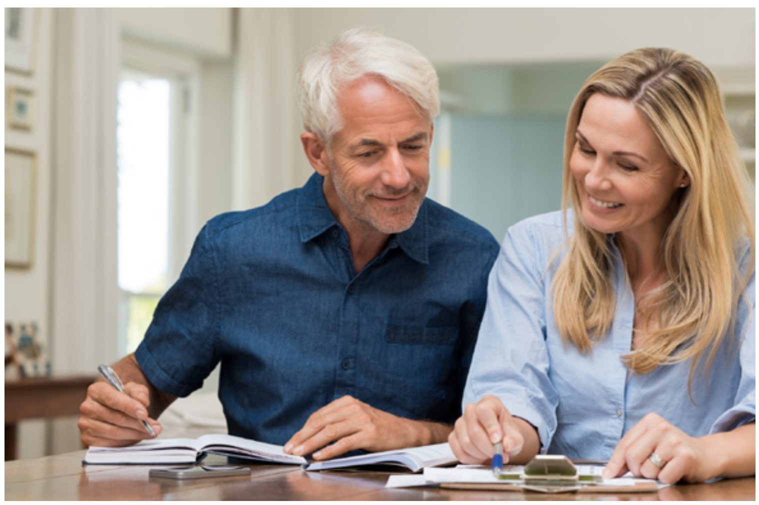
As you approach retirement, many important decisions await you. If you have a qualified employer-sponsored retirement plan, whether it is a traditional pension or defined contribution plan, such as a 401(k), you will have to decide how to manage the plan's proceeds once you retire. Your choice may depend on the following considerations: your current financial situation and your projected income requirements; the health and life expectancy of you and your spouse; the anticipated inflation rate; and Federal and state taxes.

Pension Payout Options

If you have a company pension plan, you will need to make some decisions about *how* you wish to receive your pension proceeds when you retire. Generally, you will be given the choice between receiving an income for the rest of your life **(single life option)**, receiving an income for the life of you and your spouse **(joint and survivorship option)**, or receiving a **lump-sum** distribution.

Each option has potential advantages and disadvantages. For instance, a single life option may pay a higher income than a joint and survivorship option. However, if you take the single payout option, income will cease upon your death, but with the joint and survivorship option, payments continue for the life of both you *and* your spouse. With both payout options, you exchange your pension balance for periodic payments.

If you prefer to maintain control over your pension assets during retirement, you might consider taking a lump-sum distribution. You can choose to receive the pension proceeds net of income taxes or roll them over into a **traditional Individual Retirement Account (IRA)**, where they can continue to grow on a tax-deferred basis. Either choice with the lump-sum distribution allows you to actively manage your own retirement assets.



Defined Contribution Plan Proceeds

If you are a participant in an employer-sponsored defined contribution plan, such as a 401(k), you must begin taking required minimum distributions (RMDs) by age 70½ if you no longer work there. Depending on the rules of your company plan, you may also have the option of taking a lump-sum withdrawal net of income taxes or rolling over the proceeds into an IRA or keeping the money in the 401(k) (Rule 13-45). Some of these options require you to actively manage your retirement assets, and there may be tax consequences. Be sure to consult with a qualified tax professional to ensure that your savings decisions are consistent with your objectives.

Shortfall Planning

For many individuals, retirement plan assets and Social Security alone will not meet retirement income needs. Therefore, personal savings are important to long-term success. Before you begin your personal savings program, you may want to maximize your allowable contributions to a tax-advantaged, employer-sponsored retirement plan.

Since there are a number of choices available and decisions to be made regarding the funding and distribution of your retirement income, it is important to regularly re-evaluate your financial strategies for reaching your goals. If you need help deciding which strategies are best for your unique circumstances, speak to a qualified financial professional for specific guidance. Remember, it's never too early to start saving for tomorrow. **20/20**