

marrick wealth monthly

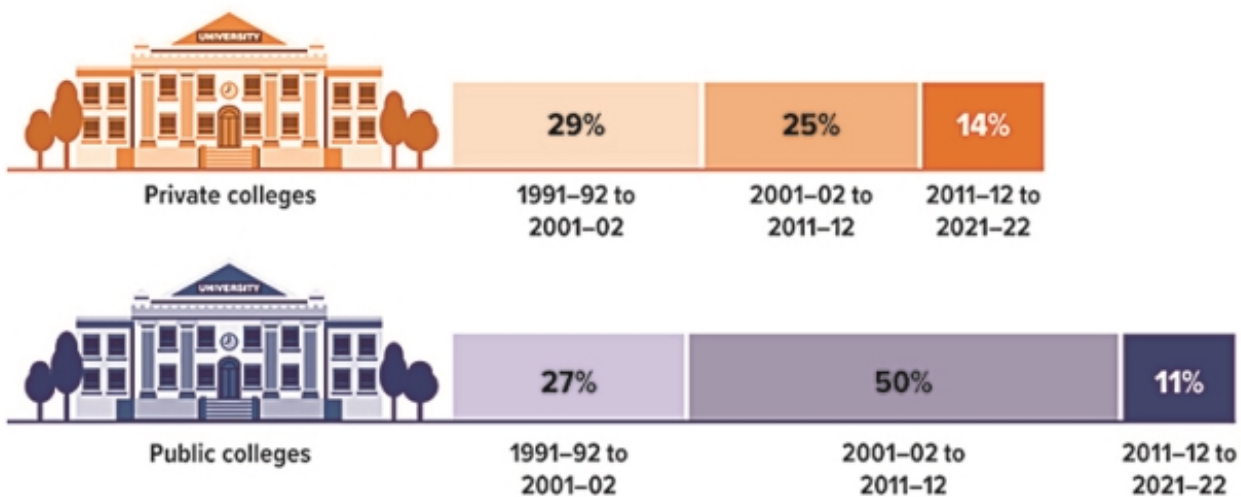


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Three Decades of College Cost Increases

Over the past 30 years, the cost of college tuition, fees, room, and board has increased 85% at private colleges and 111% at public colleges *above and beyond* the rate of general inflation. After significant cost increases during the 1990s and 2000s, colleges have made a concerted effort over the last decade to rein in cost hikes. This is especially true for public colleges, as states have generally allocated more money to their higher-education budgets after years of cuts.

Inflation-adjusted percentage increase in published college costs over past three decades



Source: *Trends in College Pricing and Student Aid 2021*, College Board

Three Things to Consider Before Buying a Vacation Home

The arrival of the COVID-19 pandemic in 2020 led to a surge in demand for vacation/second homes — mainly spurred by government shutdowns and stay-at-home advisories. Whether working remotely, attending school online, or meeting up with friends and family virtually, people found themselves spending more time than ever at home.¹ If you are thinking about buying a vacation home, here are three things to consider before taking the plunge.

Tax Benefits

The tax treatment of your home will depend largely on how much time you (or a family member) use the property for personal purposes relative to the amount of time you rent it to others. If you plan to use the home for your personal use only, or rent it to others for fewer than 15 days per year, you can typically deduct property taxes, qualified residence interest, and casualty loss deductions. Rental income from a second home under these circumstances is not taxable and rental expenses are not deductible.

When you rent out your home for more than 15 days during the year, and your personal use of the home exceeds the greater of 14 days during the year or 10% of the days rented, then the property is considered a vacation home for tax purposes. You may deduct property taxes, qualified residence interest, and casualty loss deductions. However, rental expenses must be divided between personal and rental use, and deductible expenses are generally limited to the amount of income generated by the property. In addition, all rental income is reportable. Consider seeking advice from an independent tax or legal professional.

There are inherent risks associated with real estate investments and the real estate industry, each of which could have an adverse effect on the financial performance and value of a real estate investment. Some of these risks include: a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies. Real estate investments may not be appropriate for all investors.

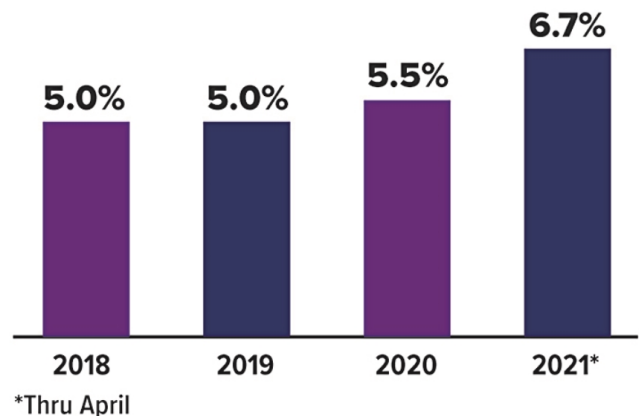
Affordability

Though there may be some financial benefits to owning your own small piece of paradise (e.g., rental income, increase in property value), you should only purchase a vacation home if you crunched the numbers and find that you can truly afford it. In addition to a mortgage, you'll have to pay property taxes and, depending on where the home is located, a

higher premium for hazard and liability insurance. The amount of money you pay for electricity, heat, sewer, water, phone, and other utilities will depend on how frequently and how many people use/occupy the vacation home. And unless your home comes furnished, initially you will need to spend money on furniture, bedding, and housewares to make sure that your home is equipped and ready for use/occupancy.

You'll also have to spend money on keeping up the home. Maintenance costs can include cleaning, yard work, pool or spa maintenance, plowing, and both major and minor repairs. If you're buying a condo or a home that is part of a homeowners association, you'll have to pay a monthly fee to cover maintenance/upkeep. Finally, if you are plan to rent out your vacation home, you may need to hire a property management company that will help you market, list, and maintain your rental property for a fee.

Share of Vacation Home Sales to Total Existing Home Sales



Source: National Association of Realtors, 2021

Investment Potential

Is the property located near a highly sought-after vacation destination? If so, it may turn out to be a good investment. Popular vacation rentals tend to increase in value over time, helping you build equity and accumulate wealth. In addition, it could generate enough rental income to help cover your mortgage and property taxes throughout the year.

If you vacation often enough, owning a vacation home could also end up saving you money in the long run. Compare the cost of your annual mortgage payments to what you normally pay for vacations during the year. You may be surprised to find that the costs are similar. Are you are planning for or nearing retirement? If so, you could buy a vacation home with the goal of eventually using it as your primary residence when you retire.

1) National Association of Realtors, 2021

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is \$16,000, up from \$15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is \$12,060,000, up from \$11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- \$12,950 (up from \$12,550 in 2021) for single filers or married individuals filing separate returns
- \$25,900 (up from \$25,100 in 2021) for married joint filers
- \$19,400 (up from \$18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- \$1,750 (up from \$1,700 in 2021) for single filers and heads of household
- \$1,400 (up from \$1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see *chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see *chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	\$125,000–\$140,000	\$129,000–\$144,000
Married filing jointly	\$198,000–\$208,000	\$204,000–\$214,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	\$66,000–\$76,000	\$68,000–\$78,000
Married filing jointly	\$105,000–\$125,000	\$109,000–\$129,000

Note: The 2022 phaseout range is \$204,000–\$214,000 (up from \$198,000–\$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$20,500 in compensation in 2022 (up from \$19,500 in 2021); employees age 50 or older can defer up to an additional \$6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to \$14,000 in 2022 (up from \$13,500 in 2021), and employees age 50 or older can defer up to an additional \$3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,300 in 2022 (up from \$2,200 in 2021) is taxed using the parents' tax rates.

Avoiding Probate

Probate is the process of proving the validity of a will and supervising the administration of an estate usually in the probate court. State law governs the proceedings in the probate court, so the process can vary from state to state. Supervising the administration of an estate can result in additional expense, unwanted publicity, and delays in the distribution of estate assets for a year or longer, which is why planning to avoid the probate process may be beneficial.

There are several ways in which assets may transfer on death directly from the decedent/owner to others without probate. The following are some of the more common ways.

Create a living trust. A revocable living trust is a separate legal entity that can be set up to hold assets. You can transfer most assets to a living trust while you're alive and have complete access to and control of those assets during your lifetime. You can also direct who is to receive assets held in trust upon your death. *The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate planning professional before implementing a trust strategy.*

Name a beneficiary. Many types of contracts allow you, as the account owner, to designate a beneficiary

or beneficiaries to receive the assets directly upon your death, avoiding probate. Examples include life insurance, annuities, and retirement accounts such as IRAs and 401(k)s.



Additional ways to avoid probate include making lifetime gifts and designating a transfer on death beneficiary for motor vehicles.

Make accounts payable on death. Certain other types of accounts, such as bank accounts and brokerage accounts, also allow you to designate a beneficiary to inherit the account at your death without going through probate.

Own real estate jointly or create a life estate. Owning property jointly, as joint tenants with rights of survivorship, is another way to transfer property at death while avoiding probate. When one joint owner dies, property ownership automatically transfers to the surviving joint owner. You can also create a life estate in the property. In this case, you transfer ownership of the property to others, often called remainder beneficiaries, while you retain a life estate in the property. This means you have the right to use and control the property during your lifetime. Upon your death, complete ownership of the property passes to the remainder beneficiaries.

IMPORTANT DISCLOSURES

This publication is not intended to provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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