Korbitz Financial Planning

Newsletter

A Trip to Remember

Many of you know that I took some time off in June to go on a backpacking trip with my son. I thought I would share a few thoughts about the trip in this newsletter.

On June 17th we left with two other Dads and 4 other Boy Scouts from the Milwaukee train station. We took the Hiawatha from Milwaukee to Chicago and then the Southwest Chief (you just have to love those train names) from Chicago to Raton NM. If you have not taken a long distance train in your life, it is a very unique way to see America. You rarely parallel an Interstate highway, and when you do parallel a road it is typically an old US highway. I usually spend my time on the train looking out the window and enjoying the always changing view.

We arrived at the Philmont Scout Ranch on June 18th . This is a 140,000 acre facility that was donated primarily by the Phillips family back in the late 1930s and early 1940s. After a bit of processing we hit the trail on Wednesday June 19th . For the next 10 nights we carried everything we would need on our backs—food, clothing, and shelter. We did get resupplied with food twice during the trip, at the Ring Place camp and Baldy Town camp.

The northeast portion of New Mexico is high desert. It is very dry there, after several years of drought. A fire ban has been in place since 2010. While we were there a forest fire was burning on the southern border of the Ranch, causing some other crews to be relocated further north. We generally hiked 5-10 miles per day, at an altitude of 8-10,000 feet.

The highlight of the trip for Will and me was climbing Mount Baldy on June 26th , which was Will's 14th birthday. There is nothing like climbing to the top of a mountain to make you realize how big the world is. We had glorious weather and were able to sit and casually eat our lunch at the peak before heading down.

Our trip back started with a flash flood in Raton NM which caused the packs of about 70 scouts and parents to get at least partially soaked. How ironic, given the dry and dusty conditions we encountered while on the trail. Once on the train and in dry clothing we were ready to relax for the ride home. We returned back to Milwaukee the evening of July 1st , greeted by family and friends.

It was wonderfully rewarding to spend two solid weeks with my son in such a beautiful location. I will need to come up with something equally special to do with my daughter, although I am quite sure it will not be a backpacking trip! I hope this story might inspire you to dream a little, and consider planning an adventure, large or small, that will make some lasting memories.

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Summer is now in full swing. After a long cold spring, I think most of us have been happy for some of the hot weather we have had in July.

As many of you know, I took some time off in June to go on a two week backpacking trip with my son. It was a trip that created special memories that both of us will carry forever. I have written a short summary of our trip in the first article of this newsletter. I hope you enjoy it.

The other articles in the newsletter discuss a new home office deduction rule that went into place for 2013, a discussion of Social Security Benefits, a short piece on health insurance law changes, and another short piece on credit report errors.

I hope the remainder of the summer is relaxing and enjoyable for you. As always, please email or call if you wish to set up an appointment or have any questions.

Eric

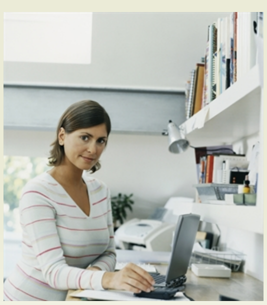
July 2013

Home Office Deduction Rules Get a Remodel

Certain limits apply

If the gross income from your business equals or exceeds your regular business expenses, all of the qualifying expenses for the business use of your home can be deducted. But if your gross income is less than your total business expenses, deductions for the business use of your home may be limited. If you use the regular method for calculating the deduction, you can carry forward the unused deduction. If you use the new, simplified option, however, you'll be unable to carry forward the unused deduction.

For additional information, see IRS Revenue Procedure 2013-13.



If you run a business out of your home, it's important to understand the associated federal income tax deductions that you might be entitled to. That's especially true this year, with new rules that make it easier than ever for some to claim a deduction.

What's a home office?

A home office is generally a room in your home, a portion of a room in your home, or a separate building next to your home (such as a converted garage or barn) that you use to conduct business activities. In order to deduct associated expenses, though, certain requirements apply.

Basic requirements

Your home office must be used regularly and exclusively as your principal place of business, or as a place where you meet or deal with clients, patients, or customers, in the normal course of your business. If you have a business outside your home, but conduct substantial administrative and management tasks for your business at home (e.g., billing clients, keeping books and records) you may qualify, provided that you have no other fixed location where you could conduct these activities.

The portion of your home used for business purposes (i.e., your home office) must be used *exclusively* for business purposes. You will not qualify for a deduction if the portion of your home is also used for personal purposes. There are two exceptions, however, relating to the storage of inventory and product samples, and the use of part of your home as a day-care facility.

Separate structures

What if your home office is in a separate unattached structure next to your home, like a shed or garage? In this case, the office doesn't have to be your principal place of business, or a place where you regularly meet with clients. However, to qualify for the deduction, you must use that office regularly and exclusively in connection with your trade or business.

Employees can claim deduction

If you're an employee and use part of your home for business, you may qualify for the home office deduction. You'd have to meet all other requirements (i.e., your home office must be used regularly and exclusively as your *principal* place of business), and in addition, your home office must be for the convenience of your employer. You also can't have an arrangement in which you're renting that portion of your home to your employer.

Regular method of determining allowable deduction

Under this method, you determine your actual expenses relating to your home office. Deductible expenses can include both direct expenses and indirect expenses. Direct expenses are costs that apply only to your home office, like the cost of a second telephone line used exclusively for your business.

Indirect expenses are costs that benefit your entire home. Only the business portion of your indirect expenses is deductible as part of the home office deduction (even if you don't claim a home office deduction, some of these indirect expenses may be deductible as itemized deductions on Schedule A of Form 1040). Some examples of indirect costs include rent, deductible mortgage interest, real estate taxes, and homeowners insurance. The business percentage of your home is determined by dividing the area exclusively used for business by the total area of the home. For example, if your home is 2,000 square feet and your home office is 200 square feet, your business percentage is 10% (200 divided by 2,000). In such a case, if you rent your home, you can deduct 10% of your rent as part of your home office deduction.

New simplified option available

Starting in 2013, a new simplified option is available for calculating the home office deduction. Under this method, instead of determining and allocating actual expenses, you calculate the home office deduction by simply multiplying the square footage of the home office by $5. There's a cap of 300 square feet, so the maximum deduction available under this method is $1,500. You can't use this method if you are an employee with a home office and receive advances, allowances, or reimbursements for expenses related to the business use of your home under an expense or reimbursement allowance with your employer.

Each year, you can choose whether to use the regular or simplified method of calculating the deduction. If you use the simplified method in one year, and in a later year use the regular method, special rules will apply in calculating your allowable depreciation deduction. Additionally, if you are carrying forward an unused deduction from a prior year (because your business deduction exceeded your business income in a prior year), you will not be able to claim the deduction in any year in which you use the simplified method--you'll have to wait for the next year you use the regular method to claim the unused deduction.

Coordinating Social Security Benefits with Other Retirement Assets

Social Security provides retirement income you can't outlive. And, in addition to your own benefit, your spouse may be eligible to receive benefits based on your earnings record in the form of spousal benefits and survivor's benefits. So, it's easy to see why, with all of these potential benefit options, Social Security is an important source of retirement income. But, according to the Social Security Administration, only about 40% of an average worker's preretirement income is replaced by Social Security (Source: SSA Publication No. 05-10035, July 2012). When trying to figure out how you'll meet your retirement income needs, you'll probably have to coordinate your Social Security benefits with other retirement income sources such as pensions, qualified retirement accounts (e.g., 401(k), IRA), and other personal savings.

Factors to consider

How you incorporate Social Security benefits into your total retirement income plan may depend on a number of factors, including whether you're married, your health and life expectancy, whether you (or your spouse) will work during retirement, the amount of your Social Security benefit (and that of your spouse, if applicable), other sources of retirement income (e.g., pension), how much retirement savings you have, and, of course, your retirement income needs of you and your spouse, including the income need of your spouse after your death.

A factor to consider is that Social Security has a "built-in" protection against longevity risk. Benefits increase each year you delay starting benefits through age 69 (benefits do not increase past age 70), so the later you start receiving benefits, the greater the benefit amount. In addition, Social Security benefits are inflation-protected, and may increase with annual cost-of-living adjustments based on increases in the Consumer Price Index.

How much you may pay in income tax may also factor into your retirement income plan. For example, distributions from tax-qualified accounts (e.g., 401(k)s, IRAs, but not including Roth IRAs) are generally taxed as ordinary income. Up to 85% of your Social Security benefits may also be taxed, depending on your modified adjusted gross income and tax filing status. Tax issues are complex, so you should talk to a tax advisor to understand your options and the tax consequences.

Pensions

If you're lucky enough to have a traditional employer pension available, that's another reliable source of income. You'll want to be sure that you effectively coordinate your Social Security benefit with pension income. Your pension may increase in value based on your age and years of employment, but it may not include cost-of-living adjustments (COLAs). As mentioned earlier, Social Security not only increases the longer you delay taking benefits, but it may increase with COLAs.

If your pension benefit increases past the age at which you retire, you might consider waiting to take your pension (either single or joint and survivor with your spouse) in order to maximize your pension benefit amount. Depending on your income needs, you could start Social Security benefits earlier to provide income. Or, if you've already reached your maximum pension benefit, you could start your pension first, and defer Social Security in order to receive an increased monthly benefit later. Your decision depends on your individual situation, including your pension benefit amount and whether it increases in value after you retire, and the pension options that are available to you (e.g., single life, qualified joint and survivor). You can get an explanation of your pension options prior to retirement from your pension plan, including the relative values of any optional forms of benefit available to you.

Personal savings

Prior to retirement, when it came to personal savings, your focus was probably on accumulation--building as large a nest egg as possible. As you transition into retirement, that focus changes. Rather than concentrating on accumulation, you're going to need to look at your personal savings in terms of distribution and income potential. Your savings potentially can provide a source of income to help you bridge any gap between the time you begin retirement (if you've stopped working) and the time you wait to begin taking Social Security benefits.

One option you might consider, depending on the amount of retirement savings you have and your income needs, is taking some of your savings and purchasing an immediate annuity, which will provide a guaranteed (based on the claims-paying ability of the annuity issuer) income stream. In this way, your remaining savings may have a chance to increase in value, while delaying Social Security benefits increases your annual benefit as well.

Incorporating Social Security into your retirement income plan involves several other important factors. Talk to your financial professional for help in developing the best plan for you.

Special rules for government pensions

If your pension is from a job where you did not pay Social Security taxes (such as certain government jobs), two special provisions may apply. If you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings, the government pension offset (GPO) may apply. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The windfall elimination provision (WEP) affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

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I already have health insurance. Will I have to change my plan because of the new health-care reform law?

For the most part, no. The Patient Protection and Affordable Care Act (ACA) does not require you to change insurance plans, as long as your plan, whether issued privately or through your employer, meets certain minimum requirements. In fact, the ACA may add benefits to your existing plan that you have not had before.

Your present insurance plan may be considered a grandfathered plan under the ACA if your plan has been continually in existence since March 23, 2010 (the date of enactment of the ACA), and has not significantly cut or reduced benefits, raised co-insurance charges, significantly raised co-payments or deductibles, and your employer contribution toward the cost of the plan hasn't significantly decreased. However, if a grandfathered plan significantly reduces your benefits, decreases the annual dollar limit of coverage, or increases your out-of-pocket spending above what it was on March 23, 2010, then the plan will lose its grandfathered status.

Some provisions of the ACA apply to all plans, including grandfathered plans. These provisions include:

- No lifetime limits on the dollar cost of coverage provided by the plan
- Coverage can't be rescinded or cancelled due to illness or medical condition
- Coverage must be extended to adult dependents up to age 26

The ACA doesn't apply to all types of insurance. For example, the law doesn't apply to property and casualty insurance such as automobile insurance, homeowners insurance, and umbrella liability coverage. The ACA also doesn't affect life, accident, disability, and workers' compensation insurance. Nor does the law apply to long-term care insurance, nursing home insurance, and home health-care plans, as long as they're sold as stand-alone plans and are not part of a health plan. Medicare supplement insurance (Medigap) is generally not covered by the ACA if it's sold as a separate plan and not as part of a health insurance policy.

I recently came across an error on my credit report. Is there any way I can fix it?

Good credit is an important part of your overall financial well-being. It can impact everything from the interest rates you'll pay to being a prerequisite for employment. As a result, you'll want to try to fix any errors on your credit report and have them removed as soon as possible.

Your first step should be to contact the credit reporting agency in writing to indicate that you are disputing the information contained on your credit report. The credit reporting agency usually has 30 days to complete an investigation of the disputed information. Once the credit reporting agency investigation is complete, they must provide you with written results of their investigation.

If, during its investigation, the credit reporting agency confirms that your credit report does contain errors, the information on your report either must be removed or corrected.

If the investigation does not resolve the issue, you still have a couple of options. First, you can try to mitigate the disputed information by adding a 100-word consumer statement to your credit bureau file. Even though consumer statements are often dismissed or ignored by potential creditors, it can at least provide you with a chance to tell your side of the story. You can also try to resolve the issue with the creditor that submitted the inaccurate information in the first place. The creditor will be obligated to investigate the disputed issue and notify you of its findings.

If you believe that the error is the result of identity theft, you may need to take additional steps to try and resolve the issue, such as placing a fraud alert or security freeze on your credit report. You can visit the Federal Trade Commission (FTC) website at www.ftc.gov for more information on the various identity theft protections that might be available to you.

Finally, due to the amount of paperwork and steps involved, fixing a credit report error can often be a time-consuming and emotionally draining process. If at any time you believe that your credit reporting rights are being violated, you can file a complaint with the Consumer Financial Protection Bureau (CFPB) at www.consumerfinance.gov.