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# Carmel-Quintero Financial

*Planning Your Financial Future*

## Medicare and Medicaid: What's the Difference?

It's easy to confuse Medicare and Medicaid, particularly since they're both government programs that pay for health care. But there are important differences between each program. Medicare is generally for older people, while Medicaid is for people with limited income and resources.

### What is Medicare?

Medicare is a federal health insurance program that was enacted into law to provide reasonably priced health insurance for retired individuals, regardless of their medical condition, and for certain disabled individuals, regardless of age. It is managed by the Centers for Medicare & Medicaid Services, a division of the U.S. Department of Health and Human Services.

### What is Medicaid?

Medicaid is a health insurance program that is jointly administered by state and federal governments. Medicaid serves financially needy individuals who are also elderly, disabled, blind, or parents of minor children.

### Who is eligible for Medicare?

Most people become eligible for Medicare upon reaching age 65. In addition, Medicare coverage may be available for disabled individuals and people with end-stage renal disease.

### Who is eligible for Medicaid?

States set their own Medicaid eligibility standards within broad federal guidelines. However, federal law requires states to cover certain groups of individuals. Low-income families, qualified pregnant women and children, and individuals receiving Supplemental Security Income (SSI) are examples of mandatory eligibility groups. In addition, a financial eligibility requirement must be met. The individual must be financially needy, which is determined by income and asset limitation tests.

### What does Medicare cover?

Currently, Medicare consists of four parts: Medicare Part A, generally called "hospital insurance," helps cover services associated with inpatient care in a hospital, skilled nursing facility, or psychiatric hospital. Medicare Part B, generally called "medical insurance," helps cover other medical care such as physician services, ambulance service, lab tests, and physical therapy. Medicare Advantage (Part C) enables Medicare beneficiaries to receive health care through managed care plans such as health maintenance organizations (HMOs), preferred provider organizations (PPOs), and others. Medicare Part D helps cover the costs of prescription drugs.

### What does Medicaid cover?

Each state administers its own Medicaid program within broad federal guidelines. Thus, the states determine the amount, duration, and types of benefits that Medicaid will provide. Typical Medicaid programs cover inpatient and outpatient hospital services, physician and surgical services, lab tests and X rays, family planning services, and services for pregnant women. There are also numerous optional benefits that states may choose to provide for Medicaid recipients.

### What about long-term care?

Most long-term care isn't medical care, but rather help with basic personal tasks of everyday life, called custodial care. Medicare does not pay for custodial care. However, Medicare may pay for skilled care (e.g., nursing, physical therapy) provided in a Medicare-certified nursing facility for up to 100 days. In addition to skilled nursing facility services, Medicare also may pay for part-time skilled nursing care, physical therapy, medical social services, and some medical supplies such as wheelchairs and hospital beds.

The states have considerable leeway in determining benefits offered and services provided by their respective Medicaid programs. Generally, if you meet your state's eligibility requirements, Medicaid will cover nursing home services, home and community-based services, and personal care services.

# Tax Tips for the Self-Employed


***Self-employed individuals make up 10.1% of the total U.S. workforce.***

***Source: U.S. Bureau of Labor Statistics, March 2016***

Being self-employed has many advantages — the opportunity to be your own boss and come and go as you please, for example. However, it also comes with unique challenges, especially when it comes to how to handle taxes. Whether you're running your own business or thinking about starting one, you'll want to be aware of the specific tax rules and opportunities that apply to you.

## Understand the self-employment tax

When you worked for an employer, payroll taxes to fund Social Security and Medicare were split between you and your employer. Now you must pay a self-employment tax equal to the combined amount that an employee and employer would pay. You must pay this tax if you had net earnings of $400 or more from self-employment.

The self-employment tax rate on net earnings (up to $127,200 in 2017) is 15.3%, with 12.4% going toward Social Security and 2.9% allotted to Medicare. Any amount over the earnings threshold is generally subject only to the Medicare payroll tax. However, self-employment and wage income above $200,000 is generally subject to a 0.9% additional Medicare tax. (For married individuals filing jointly, the 0.9% additional tax applies to combined self-employment and wage income over $250,000. For married individuals filing separately, the threshold is $125,000.)

If you file Form 1040, Schedule C, as a sole proprietor, independent contractor, or statutory employee, the net income listed on your Schedule C (or Schedule C-EZ) is self-employment income and must be included on Schedule SE, which is filed with your Form 1040. Schedule SE is used both to calculate self-employment tax and to report the amount of tax owed. You can deduct one-half of the self-employment tax paid (but not any portion of the Medicare surtax) when you compute the self-employment tax on Schedule SE.

## Make estimated tax payments on time

When you're self-employed, you'll need to make quarterly estimated tax payments (using IRS Form 1040-ES) to cover your federal tax liability. You may have to make state estimated tax payments as well.

Estimated tax payments are generally due each year on the 15th of April, June, September, and January. If you fail to make estimated tax payments on time, you may be subject to penalties, interest, and a large tax bill at the end of the tax year. For more information, see IRS Publication 505, Tax Withholding and Estimated Tax.

## Invest in a retirement plan

If you are self-employed, it is up to you and you alone to save sufficient funds for retirement. Investing in a retirement plan can help you save for retirement and also provide numerous tax benefits.

A number of retirement plans are suited for self-employed individuals:

- SEP IRA plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- "Individual" 401(k) plan

The type of retirement plan you choose will depend on your business and specific circumstances. Explore your options and be sure to consider the complexity of each plan. In addition, if you have employees, you may have to provide retirement benefits for them as well. For more information, consult a tax professional or see IRS Publication 560, Retirement Plans for Small Businesses.

## Take advantage of business deductions

If you have your own business, you can deduct some of the costs of starting the business, as well as the current operating costs of running that business. To be deductible, business expenses must be both ordinary (common and accepted in your field of business) and necessary (appropriate and helpful for your business).

Since business deductions will lower your taxable income, you should take advantage of any deductions to which you are entitled. You may be able to deduct a variety of business expenses, such as start-up costs, home office expenses, and office equipment.

## Deduct health-care expenses

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct up to 100% of the cost of health insurance that you provide for yourself, your spouse, your dependents, and employees.

In addition, if you are enrolled in a high-deductible health plan, you may be able to establish and contribute to a health savings account (HSA), which is a tax-advantaged account into which you can set aside funds to pay qualified medical expenses. Contributions made to an HSA account are generally tax deductible. (Depending upon the state, HSA contributions may or may not be subject to state taxes.)

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# Spring Cleaning Your Finances

The arrival of spring often signifies a time of renewal, a reminder to dust off the cobwebs and get rid of the dirt and grime that have built up throughout the winter season. And while most spring cleaning projects are likely focused on your home, you could take this time to evaluate and clean up your personal finances as well.

## Examine your budget..and stick with it

A budget is the centerpiece of any good personal financial plan. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget (e.g., reduce discretionary spending).

Keep in mind that in order for your budget to work, you'll need to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smartphone applications

## Evaluate your financial goals

Spring is also a good time to evaluate your financial goals. Take a look at the financial goals you've previously set for yourself — both short and long term. Perhaps you wanted to increase your cash reserve or invest more money toward your retirement. Did you accomplish any of your goals? If so, do you have any new goals you now want to pursue? Finally, have your personal or financial circumstances changed recently (e.g., marriage, a child, a job promotion)? If so, would any of these events warrant a reprioritization of some of your existing financial goals?

## Review your investments

Now may be a good time to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals. To determine whether your investments are still suitable, you might ask yourself the following questions:

- Has my investment time horizon recently changed?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity in my investments?
- Does any investment now represent too large (or too small) a part of my portfolio?

*All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.*

## Try to pay off any accumulated debt

When it comes to personal finances, reducing debt should always be a priority. Whether you have debt from student loans, a mortgage, or credit cards, have a plan in place to pay down your debt load as quickly as possible. The following tips could help you manage your debt:

- Keep track of your credit card balances and be aware of interest rates and hidden fees
- Manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first
- Avoid charging more than you can pay off at the end of each billing cycle

## Take a look at your credit history

Having good credit is an important part of any sound financial plan, and now is a good time to check your credit history. Review your credit report and check for any inaccuracies. You'll also want to find out whether you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for new credit). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit annualcreditreport.com for more information.

## Assess tax planning opportunities

The return of the spring season also means that we are approaching the end of tax season. Now is also a good time to assess any tax planning opportunities for the coming year. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for the coming year.

Be sure to check your withholding — especially if you owed taxes when you filed your most recent tax return or you were due a large refund. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

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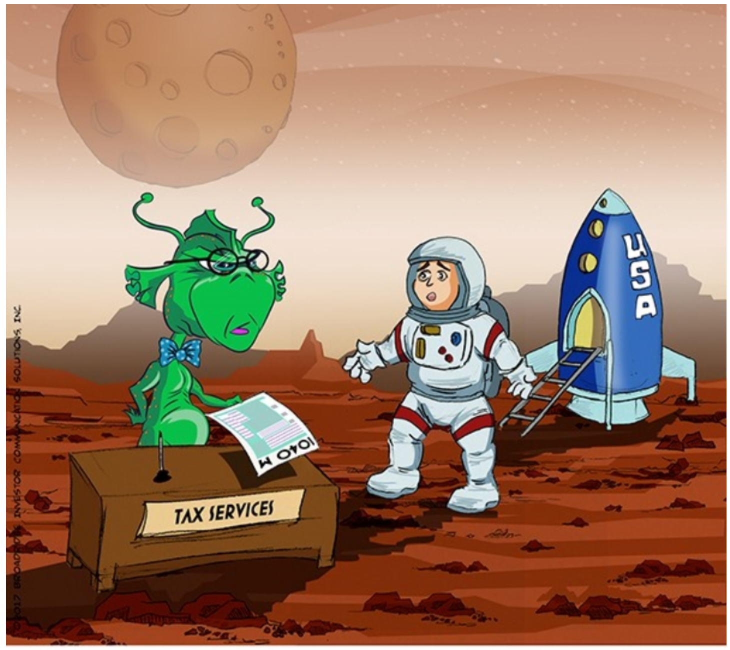


THE GOOD NEWS IS THAT YOUR MILEAGE DEDUCTION IS $17 MILLION. THE BAD NEWS IS THAT OUR TAX RATES ARE OUT OF THIS WORLD.

If you transfer money or property to anyone in any year without receiving something of at least equal value in return, you may need to file a federal gift tax return (Form 709) by the April tax filing deadline. If you live in one of the few states that also impose a gift tax, you may need to file a separate gift tax return with your state as well.

Not all gifts, however, are treated the same. Some gifts aren't taxable and generally don't require a gift tax return. These exceptions include:

- Gifts to your spouse that qualify for the marital deduction
- Gifts to charities that qualify for the charitable deduction (Filing is not required as long as you transfer your entire interest in the property to qualifying charities. However, if you are required to file a return to report gifts to noncharitable beneficiaries, all charitable gifts must be reported as well.)
- Qualified amounts paid on someone else's behalf directly to an educational institution for tuition or to a provider for medical care
- Annual exclusion gifts totaling $14,000 or less for the year to any one individual (However, you must file a return to split gifts with your spouse if you want all gifts made by either spouse during the year treated as made one-half by each spouse — enabling you and your spouse to effectively use each other's annual exclusion.)

If your gift isn't exempt from taxation, you'll need to file a gift tax return. But that doesn't mean you have to pay gift tax. Generally, each taxpayer is allowed to make taxable gifts totaling $5,490,000 (in 2017, up from $5,450,000 in 2016) over his or her lifetime before paying any gift tax. Filing the gift tax return helps the IRS keep a running tab on the taxable gifts you have made and the amount of the lifetime exclusion you have used.

If you made a gift of property that's hard to value (e.g., real estate), you may want to report the gift, even if you're not required to do so, in order to establish the gift's taxable value. If you do, the IRS generally has only three years to challenge the gift's value. If you don't report the gift, the IRS can dispute the value of your gift at any time in the future.

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