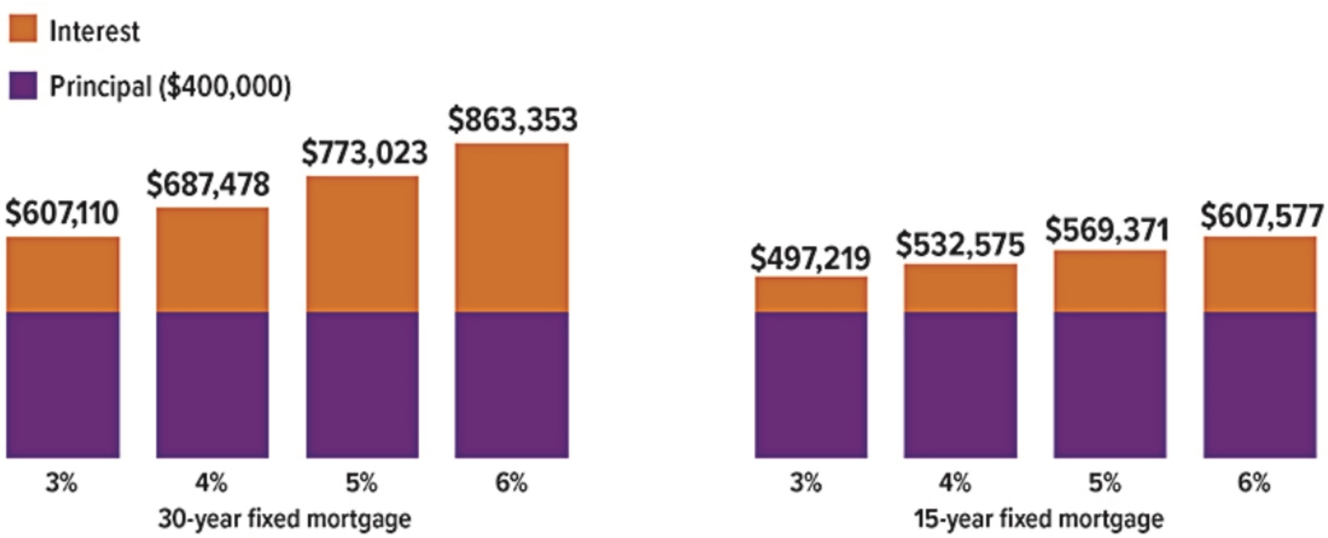
Ray Davis
Branch Owner, Wealth Advisor
The Davis Group
126 West Sego Lily • Suite 140 • Sandy • UT • 84070
801-365-0100 • 800-548-2205
Ray.Davis@RaymondJames.com • Trusted Advisors To Delta Pilots Since 1987

The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a $400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A $400,000 mortgage would enable a buyer to purchase a $500,000 home with a 20% down payment.



Source: Freddie Mac, 2022. *This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.*

Pooled Income Fund: A Charitable Gift That Provides Income to You

A pooled income fund is a trust with both charitable and noncharitable beneficiaries. It is established and run by a public charity, not by you. The charity "pools" the irrevocable contributions of many people, invests the money, and then distributes to you (or your designated beneficiary) a periodic income payment (usually quarterly or annually) for life, prorated to match your contribution to the fund. When you die or your designated beneficiary dies, your remaining share in the fund passes to the charity.

Charitable Deduction

If you itemize deductions, you receive an immediate federal income tax charitable deduction for the present value of the remainder interest that will pass to charity. Your deduction is limited to 50% or 30% of your adjusted gross income (AGI), depending on the type of property contributed. Amounts disallowed because of the AGI limitations can be carried over for up to five years, subject to the AGI limitations in the carryover years. The transfer of the remainder interest to charity would also qualify for the federal gift tax or estate tax charitable deduction.

The amount of the income tax deduction is generally based on the fair market value of the property contributed to the pooled income fund, the beneficiary or beneficiaries' age(s), and the fund's highest rate of return in the last three taxable years.

Noncharitable Income Interest

Trust payments can last for the life or lives of one or more noncharitable beneficiaries. For example, you could name yourself, yourself and your spouse, or even someone else as the noncharitable beneficiary.

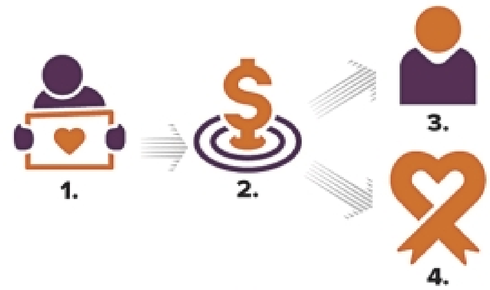
If you retain a noncharitable interest, the pooled income fund interest will be included in your gross estate for federal estate tax purposes. If your spouse receives the noncharitable interest as your survivor, that interest should qualify for the estate tax marital deduction (and the balance should qualify for the estate tax charitable deduction).

If you transfer a noncharitable interest to someone else while you are alive, you may have made a gift or generation-skipping transfer (GST) to that person of the income interest. (A GST is a transfer to a person two or more generations younger than you.) A portion of the gift may qualify for the annual gift tax exclusion, but not for the GST tax annual exclusion. A transfer to your spouse would generally qualify for the gift tax marital deduction. You may also have a federal gift and estate tax applicable exclusion amount or a GST tax exemption to shelter any transfer from tax.

Donors generally have limited choices in investment strategy. The amount of income received by the noncharitable beneficiary is not guaranteed; it may increase or decrease depending on the performance of the fund. If the investments in the fund perform poorly and the actual income earned by the fund declines, the charity is prohibited from invading the principal to increase the payment to the noncharitable beneficiary.

Income distributed to the noncharitable beneficiary is usually taxable at ordinary income tax rates. It may also be subject to the 3.8% net investment income tax.

How a Pooled Income Fund (PIF) Works



1. You donate to PIF (charitable tax deduction)
2. Charity pools donations and invests them
3. PIF pays share of fund's income annually to beneficiary
4. Charity keeps what's left after beneficiary dies

Other Considerations

One of the biggest advantages of choosing a pooled income fund over a charitable remainder unitrust or charitable remainder annuity trust is that you avoid the hassle and cost of establishing your own trust. Another advantage is that if the property you are donating to charity is relatively small, a pooled income fund makes the most of your assets by commingling them with the property of others. The fund can then use the increased assets to diversify among investments, thus helping reduce your investment risk. Also, the large size of the fund (compared to your own charitable trust) may translate into lower operating costs and more experienced management. By contrast, it may not be economically feasible for you to establish a charitable trust with a small investment. Even if you do, it may be impossible for the trustee to spread this money over a variety of investments. (Diversification does not guarantee a profit or protect against investment loss.)

In general, you can donate any type of property to a pooled income fund that the charity is willing to accept. A noncash donation will generally cause the 30% AGI limitation to apply to your charitable deduction. A fund cannot accept or hold tax-exempt securities.

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

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.

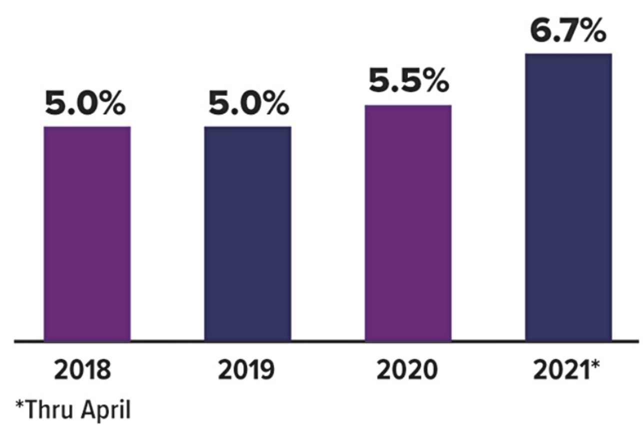
There are inherent risks associated with real estate investments and the real estate industry, each of which could have an adverse effect on the financial performance and value of a real estate investment. Some of these risks include: a deterioration in national, regional, and local economies; tenant 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

Naming a Trusted Contact

When you open an account or update an existing account at a brokerage or a financial firm, you may be asked if you want to designate a "trusted contact." This individual may be contacted in certain situations, such as when financial exploitation is suspected or there are other concerns about your health, welfare, or whereabouts. Naming a trusted contact is optional but may help protect your account assets.

The person you name as a trusted contact must be at least 18 years old. You'll want to choose someone who can handle the responsibility and will always act in your best interest — this might be a family member, close friend, attorney, or third-party professional. You may also name more than one trusted contact.

Understandably, you might be concerned that the person you name could make transactions in your account, but that's not the case. Your trusted contact will not be able to access your account or make financial decisions on your behalf (unless you previously authorized that person to do so). You are simply giving the financial firm permission to contact the person you have named.

To help protect investors against financial fraud or exploitation, the Financial Industry Regulatory Authority (FINRA) requires that investment firms make a reasonable effort to obtain trusted contact information.

Here are some examples of times when a financial firm might need to reach out to your trusted contact:

- To confirm current contact information when you can't be reached
- If financial exploitation or fraud is suspected
- To validate your health status if the firm suspects you're sick or showing signs of cognitive decline
- To identify any legal guardian, executor, trustee, or holder of a power of attorney on your account

A firm may only share reasonable types of information with your trusted contact. U.S. broker-dealers are required to provide a written disclosure that includes details about when information might be shared. Ask your financial firm or professional if you have any questions about the trusted contact agreement.

You may add, remove, or change your trusted contact at any time, and you need to keep your contact's information up-to-date. It's also a good idea to let the person you've chosen know so that he or she is prepared to help if necessary.