Let's Talk Tax with Teresa Herrin, CPA – summary by SuzanneB

Any considerations on tax in the current market climate?

- Stay conservative and lay low at the moment
- If you have a good mortgage rate stay with it. Now is not the time to sell investments to repay mortgage.
- Fed is becoming more active again and likely to increase interest rates in coming months multiple times to combat inflation. Future interest rates on mortgages will therefore be much higher than they currently are.
- Don't get into anything (loans etc) that has the potential to go up with interest rates (no variable or floating rates).

Things to consider with inflation

- Inflation seemed to previously be transitory due to covid and supply issues but it seems it's here to stay for a while and this will continue to push prices up
- Gas price increases have significant impact throughout supply chains and therefore trickle down to rising end costs for consumers
- Social security does adjust based on cost of living but usually not by enough

King County Property Tax Discount

- Max income limit has increased from $40k to $58,423. This includes ALL taxable income, although some medical deductions are allowed
- Application process includes requirements to provide tax return and all supporting documents as well as proof of living trust if your home is in one. 2 witnesses are also required to sign the application
- Note that the tax doesn't get fully written off, but instead gets deferred and becomes payable when the house is sold instead.

Wills & Trusts

- Important to have a will in place if you want any say over where things go and what happens to your assets after you die.
- Fed estate limits have gone up but there's a sunset limit coming up in 2025 and will reduce limit back to $1.5m if not extended (currently $11m).
- Make sure to update your will regularly and whenever there is a significant life change. Reach out to a professional advisor to do so as they will likely be able to assist with additional considerations and any legal changes too.
- If you decided to put assets into a living trust, an important consideration is to make sure all assets are in the trust. Only putting some in can make things very complicated and time-consuming for heirs. Also be conscious to update trust as new assets are purchased. Best to work through this with a professional financial advisor to ensure it's done correctly and revisited regularly.
- Trusts are also taxed differently to inherited estates so a professional advisor will be able to work through individual cases and considerations to work out what makes most sense for your own situation.

Is it worth selling your house before you die and downsizing to benefit from capital gains exemptions?

- Capital gains exemption is capped at $500k per couple. Long term capital gains is taxed at 20% on anything above this.
- However, if you sell with a gain of more than this, it can put you into a top tier tax bracket for the year and impact your other income (social security) as well as Medicare etc.
- You could instead unlock equity now without selling through a reverse mortgage. Check with provider or financial advisor on the different options as some act as a loan and others transfer ownership.)

Medicaid Considerations

- There is a 5 year look back clause, so need to consider this when moving / winding down assets in order to benefit from Medicaid so important to plan for this in advance.

Rental / ADU Considerations

- If renting a room in your property or considering rental income from a separate dwelling (i.e., an Accessory Dwelling Unit) on your property, a mortgage alone doesn't give you the basis to depreciate.
- Depreciation is based on initial asset cost plus any additional costs made on the investment (i.e., improvement / renovations for the rental portion of the property). You can only depreciate the portion of the property used for rental purposes, not the part you live in.
- Note that when you sell the property, you will have taxable income (that's not included in capital gains) from the rental portion, so be conservative with the depreciation.
- Seek financial advice for more support and information on this.
- Can get an equity loan to build an ADU and can report this on schedule E and gives a deduction benefit based on costs, interest on equity loan, and any insurances related to the property.