



R.L. DePanfilis & Company, LLC

Ralph L. DePanfilis
13 Byington Place
Norwalk, CT 06850
203-853-1040
203-853-9070
info@depanfilis.com

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Financial Advice for Recent College Graduates

Charitable Giving After Tax Reform

What's the real return on your investments?

Inflation Variation, Eroding Purchasing Power



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Guiding You To Financial Success Since 1979

Ten Money-Saving Travel Tips



Exploring the world sounds fun and exciting, but it can be expensive to travel. However, there are ways to experience the trip of your dreams on a budget. Follow these money-saving tips when planning your

next vacation to help make it more affordable.

1. Join a frequent flyer program. It will probably take time to accumulate frequent flyer points, but the perks can be worth it. Depending on the program, rewards can include cheaper fares, upgrades, free companion tickets, and more.

2. Be flexible with scheduling. Timing your ticket purchases wisely can help you save big. Aim to travel during days of the week when airfare tends to be cheaper. Similarly, try to fly at unpopular hours (e.g., early morning or red-eye flights) for more affordable pricing. Avoid traveling during peak holiday seasons and school breaks, and be aware of big events such as conferences or trade shows that tend to make hotel prices soar.

3. Comparison shop. Research online to find the cheapest flights to your desired destination. Mix and match your airlines and airports for the best rates — you might discover that two one-way tickets are cheaper, overall, than purchasing one round-trip ticket. Consider all-inclusive options, since the up-front price you pay is usually the total cost of your trip.

4. Pack smart. Checked baggage fees can rack up quickly, especially if you exceed an airline's weight limit. Try to stick with carry-on luggage or just remember to pack lightly to avoid paying extra for overweight bags.

5. Consider alternatives to hotels. Lower-cost lodging options can include hostels, home-exchange programs, B&Bs, and vacation rentals. But they do require careful research. Find a match that best suits your needs by narrowing down potential options according to

your budget, number of guests, length of stay, and space requirements. Look at ratings and reviews to determine whether a particular location and property will work for you.

6. Download apps to your smartphone. Take advantage of free travel apps that can help you save money on things like gas, car rental, airfare, hotels/accommodations, and more. Find and download messaging apps that your family and friends also have so you don't have to pay for text messages you send/receive while traveling.

7. Reduce mobile roaming charges. After a relaxing vacation, you probably won't want to come home to an expensive phone bill due to data roaming charges. Fortunately, many mobile networks offer data roaming deals, so check with your phone's carrier to learn about packages and discounts that may be available to you. And before you embark on your travels, adjust settings on your phone to disable data roaming as well as software downloads. App and phone updates are important, but most can wait until you are connected to Wi-Fi, which is available for free at many places.

8. Find free activities. Regardless of where you're traveling, it's likely that there are plenty of fun and free or low-cost activities. Sightseeing, walking, browsing stores, and attending local concerts/fairs/cultural events are great ways to explore a new place without spending too much (or any) money.

9. Act like a local. Blend in with the locals by dining out and shopping at stores located away from popular tourist streets. Prepare your own food when it's practical, and don't shy away from street food — it's less expensive than a sit-down restaurant.

10. Save on car rental. If possible, stick with public transportation on your trip. But if you must rent a car, book the cheapest option you can find online. You can save even more money by choosing to forego car rental insurance, but you'll want to review your existing auto insurance policy first to see if it comes with some form of coverage for rentals.

Financial Advice for Recent College Graduates



You've put in the hard work as a college student and finally received your diploma. Now you're ready to head out on your own. And though you may not have given much thought to your financial future when you were in college, you have new financial challenges and goals to consider. Fortunately, there are some simple steps you can take to start on the right track with your personal finances.

Set financial goals

Setting goals is an important part of life, especially when it comes to your finances. And though your financial goals will likely change over time, you can always make adjustments in the future. Start out by asking yourself some basic questions about your financial goals, such as whether they are short term (e.g., saving money to buy a car or rent an apartment) or long term (e.g., paying off student loans or buying your own home). Next, ask yourself how important it is to accomplish each goal and determine how much you would need to save for each goal.

Understand the importance of having a budget

A budget is an important part of managing your finances. Knowing exactly how you are spending your money each month can set you on a path to pursue your financial goals. Start by listing your current monthly income. Next, add up all of your expenses. It may help to divide expenses into two categories: fixed (e.g., housing, food, transportation, student loan payments) and discretionary (e.g., entertainment, vacations). Ideally, you should be spending less than you earn. If not, you need to review your expenses and look for ways to cut down on your spending.

Remember that the most important part of budgeting is sticking to it, so you should monitor your budget regularly and make changes as needed. To help stay on track, try to make budgeting a part of your daily routine and be sure to give yourself an occasional reward (e.g., dinner at a restaurant instead of cooking at home).

Establish an emergency fund

An emergency fund is money set aside to protect yourself in the event of an unexpected financial crisis, such as a job loss or medical bills. Typically, you will want to have at least three to six months' worth of living expenses in your cash reserve. Of course, the amount you should save depends on your individual circumstances (e.g., job stability, health status).

A good way to establish an emergency fund is to earmark a portion of your paycheck each pay period to help achieve your goal.

Manage your debt situation properly

Whether it's debt from student loans or credit cards, you'll want to avoid the pitfalls that sometimes accompany borrowing. To manage your debt situation properly, keep track of your loan balances and interest rates and develop a plan to manage your payments and avoid late fees. If you need help paying off your student loans, consider the following tips:

- Find out if your employer offers some type of student debt assistance
- Contact your lender about your repayment options
- Consider whether loan consolidation or refinancing is available

Maintain good credit

Having good credit will impact so many different aspects of your financial situation, from obtaining a loan to gaining employment. You can establish and maintain a good credit history by avoiding late payments on existing loans and paying down any debt you may have. In addition, you should monitor your credit report on a regular basis for possible errors or signs of fraud/identity theft.

Determine your insurance needs

Insurance might not be the first thing that comes to mind when you think about your finances. However, having the right amount of insurance is an important part of any financial strategy. Your specific insurance needs will depend on your circumstances. For example, if you rent an apartment, you'll need renters insurance to protect yourself against loss or damage to your personal property. If you own a car, you should have appropriate coverage for that as well. You may also want to evaluate your need for other types of insurance, such as disability and life.

As for health insurance, you have a couple of options. You can usually stay on your parents' insurance until you turn 26. In addition, you may have access to health insurance through your employer or a government-sponsored health plan, or you can purchase your own plan through the federal or state-based Health Insurance Marketplace. For more information, visit [healthcare.gov](https://www.healthcare.gov).



Charitable Giving After Tax Reform



Some of the recent changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from your charitable contributions. Incorporating charitable giving into your year-end tax planning may be even more important now. If you are age 70½ or older and have a traditional IRA, you may wish to consider a qualified charitable distribution.

Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

Income tax benefit of charitable giving

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$15,000. They would have a standard deduction of \$27,000 in 2019. The couple would effectively receive no tax savings for the first \$12,000 of charitable contributions they make. Even with a \$12,000 charitable deduction, total itemized deductions of \$27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$30,000. They would be entitled to a standard deduction of \$27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of \$10,000, they would reduce their income taxes by \$2,400 (\$10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Year-end tax planning

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

Qualified charitable distribution (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional \$100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

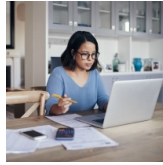
Caution: Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.



R.L. DePanfilis & Company, LLC

Ralph L. DePanfilis
13 Byington Place
Norwalk, CT 06850
203-853-1040
203-853-9070
info@depanfilis.com

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What's the real return on your investments?

As an investor, you probably pay attention to *nominal return*, which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your *real return*.

Let's say you want to purchase a bank-issued certificate of deposit (CD) because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5%.¹ After factoring in the effect of inflation, the real return on your CD investment could

approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

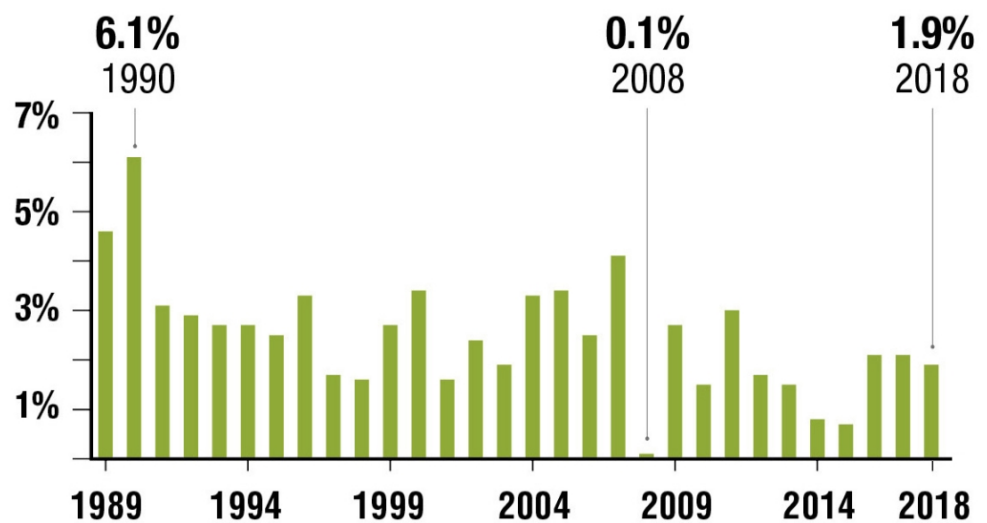
The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than their original cost.

¹ U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

Inflation Variation, Eroding Purchasing Power

Inflation averaged 2.5% for the 30-year period from 1989 to 2018. Although the recent trend is below the long-term average, even moderate inflation can reduce purchasing power and cut into the real return on your investments.

Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

