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New mortgage rules have moved in

Many homebuyers will now face greater scrutiny as they apply for mortgage loans. That's because new regulations that went into effect in January require lenders to analyze potential borrowers' ability to repay the mortgages for which they're applying.

The rules come from the Consumer Financial Protection Bureau (CFPB) and are intended to keep consumers from having mortgages they can't afford to repay.

Qualified mortgages

If you're seeking a mortgage loan, you'll likely hear a new term: "qualified mortgage" or "QM." Lenders making QMs typically assess a prospective borrower's ability to repay the loan based on certain attributes, including:

- Reasonably expected income,
- Employment status,
- Other debts,
- Credit history, and
- Monthly debt-to-income ratio, which typically will need to be less than 43%.

To analyze these, a lender might review your W-2 statements, income tax returns, and bank statements, among other documents.

Prohibited features

The rules also ban a number of "toxic loan" features from most qualified mortgages, including:

- Interest-only periods in which borrowers pay just the interest and no principal,
- Balloon payments, although these are allowed in certain circumstances,
- Negative amortization, or loans in which the principal increases over time, even as the borrower makes payments, and
- Loan terms extending beyond 30 years.

In addition, lenders likely will be unable to determine a borrower's ability to repay using a temporarily low "teaser" interest rate. So, if the loan is an adjustable-rate mortgage, the lender will determine your ability to repay using the highest possible interest rate.

… and there's more

The new rules also limit the initial fees and points that can be assessed on most qualified mortgage loans. Some charges — say, to run a credit report — are excluded from the limit.

Lenders likely will be unable to determine a borrower's ability to repay using a temporarily low "teaser" interest rate.

The new rules come at a bit of a cost: Lenders may find it hard to recoup the expense that the extra scrutiny requires even on smaller mortgage loans, and they may decide *not* to issue loans that fall below a certain threshold. Self-employed individuals, whose income often fluctuates, might be unable to show they can manage the ongoing payments.

There *is* an upside

If you're thinking about purchasing a home, work with your financial advisor to learn more about how these regulations might affect the mortgage loan you can qualify for. ◈

Paying cash for a new home

Having enough cash to cover the cost of a new home can put you in a prime position. Cash buyers may be able to close more quickly than those who must obtain financing, which also may get them a better deal. And cash buyers not only avoid mortgage interest costs but also may be able to reduce some costs at closing.

Even so, cash buyers should take these three steps before committing to a purchase:

1. Run the numbers. Although using cash to purchase a property offers some valuable benefits, it also means tying up a large sum of money in a relatively illiquid asset. Before entering into a cash home deal, make sure you have enough other funds on hand to cover ongoing expenses, savings and emergencies. Also consider whether it might be financially smarter to take out a mortgage and make another investment with the money you would have put into the home purchase. As long as interest rates remain relatively low and mortgage interest remains deductible (up to certain limits), you might get a better return putting cash into investments other than your home.

2. Pay for an appraisal and inspection. These services typically are necessary in a sale financed by a mortgage, because most banks insist on them. Although they may not be required with a cash sale, they're still worth obtaining in most cases. An online market report can give a general guideline of a home's value, but it won't be as carefully prepared as an appraisal. If you skip either the appraisal or the inspection, you may wind up overpaying. And forgoing an inspection may lead to serious problems discovered *after* the papers are signed.

3. Obtain title insurance. Title insurance protects against the loss of an interest in a property due to problems with the title. These can arise even after a transaction closes and may include, for instance, a mistake in the deed or a lien against the property. An owner's title insurance policy provides assurance that the buyer has a clean claim to the property.

As always, your financial advisor and a qualified realtor can help you to determine if buying a home for cash makes sense for you.

Where there's a will, there's a way

Ensuring your wishes will be carried out

Question: Have you created a will? What about other important estate planning documents? If you have, when was the last time you reviewed them? Well-crafted, up-to-date estate planning documents ensure your wishes will be carried out. They also can help ease the burdens on your family during a difficult time.

The will

A will is a legal document that arranges for the distribution of your property after you die and allows you to designate a guardian for minor children or other dependents. It should name the executor or personal representative who'll be responsible for overseeing your estate as it goes through probate. (Probate is the court-supervised process of paying any debts and taxes and distributing your property after you die.) To be valid, a will must meet the legal requirements in your state.

If you die without a will (that is, "intestate"), the state will appoint an administrator to determine how to distribute your property.

The administrator also will decide who will assume guardianship of any minor children or other dependents. Bottom line? Your assets may be distributed — and your dependents provided for — in ways that differ from what you would have wanted.

The living trust

Because probate can be time-consuming, expensive and public, you may prefer to avoid it. A living trust can help. It's a legal entity to which you, as the grantor, transfer title to your property. During your life, you can act as the trustee, maintaining control over the property in the trust. On your death, the person (such as a family member or advisor) or institution (such as a bank or trust company) you've named as the successor trustee distributes the trust assets to the beneficiaries you've named.

Assets held in a living trust avoid probate — with very limited exceptions. Another benefit is that the successor trustee can take over management of the trust assets should you become incapacitated.

If you die without a will (that is, "intestate"), the state will appoint an administrator to determine how to distribute your property.

Having a living trust doesn't eliminate the need for a will. For example, you can't name a guardian for minor children or other dependents in a trust. A "pour over" will is a good idea because it directs that assets you own outside the living trust be transferred to it on your death.

Other important documents

A "letter of instruction" can complement, but not replace, your will and living trust. It should provide vital information that your family will need after your death. For example, you can include your desires for the memorial service, as well as the contact information for your employer, accountant, and any other important advisors. The letter isn't a legal document.

A few documents will become invaluable to your family should you become incapacitated. Two are forms of power of attorney.

The *durable power of attorney for property* allows you to appoint someone to act on your behalf on financial matters should you become incapacitated. The *power of attorney for health care* (also known as a "health care proxy") covers medical decisions and takes effect if you become incapacitated. The person to whom you've transferred this power — your health care agent — can make medical decisions on your behalf.

Living wills, also commonly referred to as "advance medical directives," outline the conditions under which you'd want life support equipment removed or other specified life-prolonging medical treatments *not* to be given. They generally go into effect only if you're incapacitated *and* you've been certified by two physicians to be permanently unconscious or terminally ill.

Don't go it alone

Last but not least, review the beneficiary designation forms on any insurance policies, as well as your 401(k) plans and IRAs, to be certain that the money will go where you want it to go.

Estate planning can be complicated, and there are many tax and legal issues involved. So, it's best not to try to tackle these documents on your own. Instead, work with your lawyer and tax and financial advisors. ◈

5 ways to use LinkedIn to build your business

Facebook and Twitter often dominate discussions of social media, and Google remains a powerhouse in searching for all things known and unknown. For companies and individuals looking to build their businesses, however, LinkedIn can be a valuable social media tool. The professional network boasts more than 250 million members, as well as 3 million-plus company pages.

LinkedIn members tend to be educated and have relatively high incomes. Research done late in 2013 by the Pew Research Center's Internet Project indicates that 22% of adults who are online use LinkedIn. About 38% of those with incomes of $75,000 or more also use it. Similarly, 38% of online adults with a college degree are LinkedIn users.

A few guidelines can help companies and the self-employed build their professional networks and business via LinkedIn. Here are five:

1. Complete your profile

A basic step, but it's not unusual to find profiles that are missing key information. A profile should let viewers know what the business does, its size and headquarters location, and its website URL. Make sure you include words that clients would likely use in their searches. A marketing firm in Phoenix, for instance, may post: "marketing firm based in Phoenix" or something similar.

Status updates are most effective when they're done regularly and are relevant to the company's desired audience — typically, current and prospective clients.

For the self-employed, an updated, professional headshot and accurate contact information are key to conveying an image of competence and professionalism.

2. Let others know what you're up to

Like Facebook members, LinkedIn members can post updates about themselves or their businesses. Status updates are most effective when they're done regularly and are relevant to the company's desired audience — typically, current and prospective clients. For instance, a staffing agency might offer advice for job seekers, while a law firm might link to its analysis of a recent court ruling. According to LinkedIn, 60% of its members are interested in industry news and insights.

While the posts should be professional, there's no reason they can't also be engaging. For example, you might want to highlight a different employee each week. Along with professional qualifications, the post can include a couple of sentences on his or her background and interests.

3. Look for opportunities to connect

Businesses should make sending invitations to connect via LinkedIn a regular part of their networking efforts. Along with clients, they can invite current and former employees and business partners to join their network. The company's website also should include an easy way to reach its LinkedIn profile.

4. Join a group

LinkedIn offers more than 2 million groups, geared to everyone from art professionals to zoo administrators. Companies and individuals that participate in a few groups geared to their target markets can demonstrate industry knowledge and expertise, engage with customers, and keep tabs on competitors.

Before joining, check the group's statistics, such as the number of members and their titles. Clicking the "i" on the right hand side of the group's home page brings up the information page.

5. Assign responsibility

Developing and posting new, engaging and relevant information on a regular basis requires time and attention. Designate one or more employees the responsibility for managing your company's LinkedIn activity.

It's similar with any social media initiative: The more effort and attention you put into LinkedIn, the more you'll likely get out of it. ◈

What employers need to know about the 0.9% additional Medicare tax

Although it hasn't garnered as much attention as some of the other provisions in the Affordable Care Act (ACA), the 0.9% additional Medicare tax went into effect Jan. 1, 2013. The tax applies to wages and self-employment income over certain levels and is in addition to the regular 2.9% Medicare tax.

Unlike the regular Medicare tax, which both employees and employers jointly pay (1.45% each), generally only employees are responsible for paying the 0.9% tax. However, employers must withhold the additional tax when a worker's wages (including noncash fringe benefits) top $200,000 in a single calendar year. If they don't, they could be subject to penalties and even become liable for paying the tax. So it's important to make sure you're fulfilling your withholding obligations.

How the withholding works

You don't need to begin withholding the additional Medicare tax until the pay period in which an employee's wages exceed $200,000. So, if a worker hits this threshold at the end of November, the withholding would start at that point. You aren't required to inform workers of the withholding.

You must report the additional Medicare tax withheld on your federal tax returns and on employee W-2 forms. Similarly, you must add together the amounts for the regular and the additional Medicare tax when providing information on your tax deposit via the Electronic Federal Tax Payment System®.

You don't need to begin withholding the additional Medicare tax until the pay period in which an employee's wages exceed $200,000.

Final IRS regulations issued in November 2013 provide guidance on how to withhold the tax, the reporting requirements and the employer process for adjusting under- and overpayments of the additional Medicare tax. They also explain how to file a claim for a refund of an overpayment.

Employer vs. employee responsibilities

It's important to be aware that you won't always be able to withhold the same amount of additional Medicare tax that an employee actually owes.

Here's why: While you're obligated to withhold the tax on wages that exceed $200,000, some employees whose wages exceed $200,000 won't actually owe the tax, and some employees with lower wages may still end up owing the tax.

One reason is that the threshold at which a taxpayer owes the tax can differ from $200,000. For taxpayers who are married and filing jointly, for instance, the threshold is $250,000. So, if an employee earns $210,000, you'll be required to withhold the 0.9% tax on $10,000 ($210,000 - $200,000). However, if the employee's combined wages and self-employment income with his or her spouse falls below $250,000, the couple won't owe the additional tax.

In such a case, you can't grant an employee request to *not* withhold that tax. But the employee can claim a credit for the withheld amount on his or her income tax return for the year.

In another scenario, a single taxpayer may hold multiple jobs, none of which individually puts him or her above the $200,000 threshold, but together the earnings exceed this threshold. You can't specifically withhold the additional Medicare tax for the employee. But the employee can use Form W-4 ("Employee's Withholding Allowance Certificate") to request an increase in the amount of *income* tax withheld to cover the Medicare tax shortfall. Alternatively, the employee can make estimated tax payments.

Working with a pro is a must

As you can see, the 0.9% Medicare tax and the associated withholding requirements for employers can be confusing. Fortunately, your tax and financial advisors can help you sort through your withholding obligations. ◈

THE RIGHT IDEAS

THE RIGHT RESULTS

ACHIEVED WITH THE RIGHT FIRM.

HAVE YOU HEARD THE TAX PLANNING WAKEUP CALL?

Did the sticker shock of your 2013 taxes teach you that tax planning needs to be a year-round strategy?

Throughout the year, we constantly strive to achieve maximum tax efficiency for our clients. As tax laws change, Zinner & Co. advises its clients on strategies to minimize their tax liabilities and avoid surprises as we approach the April 15th deadline. Year-round tax planning is the right idea when you want the right results.

ZINNER & CO. LLP
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75 YEARS

The Zinner & Co. tax professionals know that every major financial decision you make, personally or in business, can carry tax implications.

That is why we are always available to each of our clients to offer sound, smart tax advice year round, not just during the weeks leading up to April 15th.

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