MQFP® Study Guide 1.10: Active-Duty Additional Planning Considerations

Learning Objectives:

1.10 Active-Duty Additional Planning Considerations

a. Contrast the costs of base housing with renting a house and buying a house

The cost comparison between military base housing and market-based housing can vary significantly based on several factors such as location, housing availability, housing allowances, amenities, and the housing market's overall condition. Here's a breakdown:

Military Base Housing:

Rent/Lease: Military personnel often have the option to live on-base in housing provided by the government. The cost for this housing is deducted from their housing allowance, known as Basic Allowance for Housing (BAH). The BAH is determined by rank, dependency status, and location.

Utilities and Amenities: Typically, utilities like water, electricity, and sometimes internet and cable may be included in on-base housing. Amenities like gyms, parks, and community centers might also be available at no extra cost.

Maintenance: Maintenance and repairs for on-base housing are generally handled by the military housing office, which can save residents from additional expenses.

Market-Based Housing:

Rent/Lease: The cost of renting or buying a home in the civilian market can vary widely based on location, size, amenities, and local market conditions. In some areas, market-based housing may be more expensive than the BAH, while in others, it might be cheaper.

Utilities and Amenities: Utilities may or may not be included in market-based housing, and tenants/owners are usually responsible for paying these separately. Amenities also vary widely and may come with additional costs or be included in the rent.

Maintenance: In market-based housing, tenants/owners are responsible for maintenance and repairs unless otherwise stated in the rental agreement or warranty.

Factors to Consider:

Location: The cost of housing can significantly differ from one location to another. In some high-cost areas, the BAH might not cover the full expense of off-base housing, whereas in lower-cost areas, the BAH might exceed the cost of comparable civilian housing.

Flexibility and Preferences: Some military personnel prefer the convenience and community aspect of living on base, while others may prefer the flexibility and choice offered by the civilian market.

Housing Allowances: BAH rates are updated annually and are based on various factors including changes in housing costs and location. So, the financial aspect can change over time.

Personal Finances and Benefits: Some military personnel might also qualify for certain housing-related benefits, loans, or tax advantages that could affect their decision.

Exercise 1: Housing Costs Comparison

Create a detailed comparison of the costs of living in base housing, renting a house, and buying a house. Consider factors such as monthly rent/mortgage payments, utilities, maintenance, and potential appreciation or depreciation in property value.

b. Project the expected expenses of owning a rental property

Owning a rental property involves various expenses beyond the initial purchase price or mortgage payments. These costs can significantly impact the profitability and management of the property. Here are some common expenses associated with owning a rental property:

Mortgage Payments or Financing Costs: If you have a mortgage on the property, monthly mortgage payments or interest on loans will be a significant recurring expense.

Property Taxes: Property taxes are levied by local governments and can vary based on the property's assessed value. These taxes are usually paid annually or semi-annually.

Insurance: Landlord insurance or rental property insurance covers damages to the property, liability protection, and sometimes loss of rental income. This is typically a recurring expense.

Maintenance and Repairs: Regular maintenance, repairs, and occasional upgrades are essential to keep the property in good condition and attract tenants. This can include plumbing, electrical work, HVAC servicing, painting, and more.

Property Management Fees: If you hire a property management company to handle tenant-related issues, rent collection, maintenance, and other tasks, you'll incur management fees, which are often a percentage of the rental income.

Utilities and Services: In some cases, landlords cover certain utilities or services, especially if they're included in the lease agreement or if it's a multi-unit property where some utilities are shared.

Vacancy Costs: When the property is vacant, there's a loss of rental income. It's essential to budget for potential vacancies and account for this loss.

Advertising and Marketing: Costs associated with advertising the property, listing fees on rental platforms, and marketing expenses to attract tenants.

Legal and Professional Fees: Legal fees for lease drafting, eviction processes, or consulting with professionals like accountants or attorneys regarding property-related matters.

HOA Fees or Condo Fees: If the property is part of a homeowners association (HOA) or condominium, there are recurring fees for upkeep and shared amenities.

Capital Expenditures (CapEx): Larger, less frequent expenses such as replacing the roof, appliances, or major structural repairs should be anticipated and budgeted for over time.

Landlord-Related Costs: Other expenses might include travel to and from the property for inspections or meetings with tenants, as well as expenses related to complying with landlord-tenant laws.

Exercise 2: Rental Property Expenses Projection

List the various expenses associated with owning a rental property, including mortgage payments, property taxes, insurance, maintenance, vacancies, property management fees, and any other relevant costs.

c. Calculate expected tax impacts of selling a rental property given a set of circumstances

Selling a rental property can have several tax implications that could affect your financial situation. Here are some key points to consider:

Capital Gains Tax: When you sell a rental property for more than its adjusted basis (usually purchase price plus improvements minus depreciation), you'll likely incur capital gains tax. There are two types of capital gains: short-term (for properties held for less than a year) and long-term (for properties held for more than a year). Long-term capital gains are typically taxed at lower rates than short-term gains.

Depreciation Recapture: If you claimed depreciation deductions on the property while it was rented, you may be subject to depreciation recapture upon the sale. Depreciation recapture taxes a portion of the gain at a higher rate (usually 25%) to account for the tax benefits received from depreciation deductions.

Net Investment Income Tax (NIIT): Depending on your income, you might be subject to the Net Investment Income Tax, which applies an additional 3.8% tax on investment income, including capital gains, for individuals whose income exceeds certain thresholds ($200,000 for single filers and $250,000 for married filers filing jointly).

State Taxes: States have their own tax rules regarding the sale of rental property. Some states might have different rates or rules for capital gains tax and depreciation recapture.

1031 Exchange: Under certain circumstances, you might be able to defer paying capital gains tax by utilizing a 1031 exchange. This allows you to reinvest the proceeds from the sale into another investment property of equal or greater value within a specific time frame.

Tax Basis: Make sure you accurately calculate your tax basis in the property. This includes the purchase price, improvements, and any other relevant costs that can be added to the basis and help reduce the taxable gain.

Exercise 3: Rental Property Tax Calculation

Given a hypothetical scenario of selling a rental property, calculate the expected tax impact, including capital gains tax and any depreciation recapture.

d. Describe available student loan programs available to active duty servicemembers

Members of the military have access to several student loan repayment options and programs that are designed to alleviate the burden of student loan debt. Some of these options include:

Military College Loan Repayment Program (CLRP): This program is available to certain military personnel who enlisted in specific military occupational specialties. Under CLRP, the military offers to repay a portion of your qualifying student loans as an incentive for joining the military.

Public Service Loan Forgiveness (PSLF): Military service can qualify as public service, making service members eligible for the Public Service Loan Forgiveness program. Under PSLF, if you work for a qualifying employer, such as the military, and make 120 qualifying payments under a qualifying repayment plan, the remaining balance on your Direct Loans may be forgiven.

Income-Driven Repayment Plans (IDR): Service members can take advantage of income-driven repayment plans, such as Income-Based Repayment (IBR), Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), or Income-Contingent Repayment (ICR). These plans calculate your monthly payment based on your income and family size, potentially resulting in lower monthly payments.

Interest Rate Cap under the Servicemembers Civil Relief Act (SCRA): For service members on active duty, interest rates on student loans obtained before entering active duty are capped at 6% under the SCRA. This benefit applies to federal and private student loans.

Deferment and Forbearance: Service members might be eligible for deferment or forbearance options, allowing them to temporarily postpone or reduce their student loan payments during periods of active duty, deployment, or other qualifying circumstances.

Military-specific Loan Repayment Assistance Programs: Some branches of the military offer additional loan repayment programs or incentives. These may vary based on the branch of service and the specific career field.

> **Exercise 4:** Student Loan Programs Description
>
> Describe the various student loan programs available to active duty servicemembers, such as the Public Service Loan Forgiveness (PSLF) program, military-specific loan repayment programs, and deferment or forbearance options.

Quiz: (Multiple Choice)

1. True or False: Renting a house is always cheaper than buying a house in the long term.

a) True

b) False

2. What are some potential expenses that a rental property owner should consider when projecting the expected expenses of owning a rental property?

a) Maintenance and vacancies only

b) Mortgage payments and property taxes only

c) Property management fees and insurance only

d) Maintenance, vacancies, property management fees, insurance, and more

3. When selling a rental property, what is the tax rate applied to the capital gains?

a) The same tax rate as ordinary income

b) A reduced tax rate compared to ordinary income

c) The capital gains tax rate, which varies based on the individual's income level and filing status

d) There is no tax on capital gains from selling a rental property

4. True or False: Active duty servicemembers are not eligible for any student loan forgiveness programs.

a) True

b) False

References:

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- Federal Student Aid, U.S. Department of Education: https://studentaid.gov/

- Public Service Loan Forgiveness, Federal Student Aid: https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service

- Servicemembers Civil Relief Act (SCRA), Legal Services Corporation: https://www.lsc.gov/sites/default/files/images/LSC_pubs/SCRA.pdf

*Answer Key can be found at: https://mqfp.org/study-guides/8 *