The Personal Planner

Planning Tips for Today and the Rest of Your Life

From Data Breaches to Ransomware: How to Avoid Becoming the Victim of a Cybercrime

Each time you connect to the Internet, you risk becoming the victim of a cybercrime. It's the price we pay for living in a digital world — whether it's at home, at work, or on your smartphone.

According to the Identity Theft Resource Institute, the number of U.S. data breaches in 2016 increased by 40%. And as recently as May 2017, a widespread "ransomware" attack targeted personal computers across the globe. While software companies are continually developing strategies to combat the latest cybercrimes, there are some steps you can take to help protect yourself online.

The stronger, the better

It's a scary thought — most of us have a large amount of financial and personal information that's readily accessible through the Internet, in most cases protected by nothing more than a username and password.

Create a strong password by using a combination of lower- and upper-case letters, numbers, and symbols or by using a random phrase. Avoid using a password with your personal information such as your name and address. In addition, have a separate and unique password for each account or website that you use.

If you have trouble keeping track of all your password information or you want an extra level of password protection, consider using password management software. Password manager programs generate strong, unique passwords that you control through a single master password.

Follow the 3-2-1 rule

Backing up your online data is critical to avoid losing valuable information due to a cyber attack. If you have digital assets that you don't want to risk losing forever, you should back them up regularly. This pertains to data stored on both personal computers and mobile devices.

When backing up data, a good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event — such as a computer hacker gaining access to your computer — will compromise your primary data and backups. In order to follow the 3-2-1 rule:

- Have at least three copies of your data (this means a minimum of the original plus two backups)
- Use at least two different formats (e.g., hard drive and cloud-based service)
- Ensure that at least one backup copy is stored in a separate location (e.g., safe-deposit box)

Stay one step ahead

Finally, the best way to avoid becoming the victim of a cybercrime is to stay one step ahead of the cybercriminals. Here are some extra precautions you can take before you go online:

Consider using two-step authentication. Two-step authentication, which involves using a text or email code along with your password, provides another layer of protection for your sensitive data.

Keep an eye on your accounts. Notify your financial institution immediately if you see suspicious activity. Early notification not only can stop the cyber thief but may limit your financial liability.

Think twice before clicking. Beware of emails containing links or asking for personal information. Never click on a link in an email or text unless you know the sender and have a clear idea where the link will take you.

Be careful when you shop. When shopping online, look for the secure lock symbol in the address bar and the letters *https:* (as opposed to *http:*) in the URL. Avoid using public Wi-Fi networks for shopping, as they lack secure connections.

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Clearly, Fall is finally with us. Frankly, it feels good. The pumpkins are carved and on the porch along with the Halloween lights... all awaiting the onslaught of ghosts and goblins, spidermen and princesses that will ring our doorbell Tuesday night. November will be an eventful month for Kate and I. We're leaving on the 4th for two weeks on the Gulf Coast, attracted by a Songwriters' Festival and World Cooking Championship. We'll be back on the 20th. Then, after our Thanksgiving on the farm (my son's), I'll be headed into the hospital (briefly) for a total knee replacement scheduled for the Nov 28th, hopefully the beginning of the end to this highly inconvenient disability I've been coping with this year. Depending on how the post-surgical stuff goes, reporting may be a bit delayed next month as a consequence. Here's wishing you a delightful November and a gracious Thanksgiving holiday!
Bruce Heling, CFP CPA
October 26, 2017

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HELING ASSOCIATES
Bringing the Personal to Financial Planning

Future of the Federal Estate Tax

The federal estate tax has been enacted or repealed a number of times over the years, while undergoing many changes. Tax reform, including possible repeal of the estate tax, is back in the spotlight once again.

[1] 2015 Field Guide to Estate Planning, Business Planning & Employee Benefits

While no one can predict the future, the possibility of tax reform is once again in the spotlight. If it occurs, it may very well include repeal of the federal estate tax and related changes to the federal gift tax, the federal generation-skipping transfer (GST) tax, and the federal income tax basis rules.

History of the federal estate tax

In general, an estate tax is a tax on property a person owns at death. In one form or another, a federal estate tax has been enacted or repealed a number of times since 1797.[1]

Estate tax enacted	Estate tax repealed
1797	1802
1862	1872
1894	1902
1916	2010*
2011*	

**For 2010, the estate tax was repealed, but later retroactive legislation provided that an estate could elect to be subject to estate tax in return for a stepped-up (or stepped-down) income tax basis for most property. The estate tax was extended in 2011, with some changes.*

The estate tax has undergone many changes over the years, including the addition of a federal gift tax and a federal GST tax during modern times. A gift tax is a tax on gifts a person makes while alive. A GST tax is a tax on transfers to persons who are two or more generations younger than the transferor. In recent years, property owned at death has generally received an income tax basis stepped up (or down) to fair market value at death.

During the 2000s, the estate, gift, and GST tax rates were substantially reduced, and the gift and estate tax lifetime exclusion and the GST tax exemption were substantially increased. The estate tax and the GST tax, but not the gift tax, were scheduled for repeal in 2010 (although certain sunset provisions would bring them back unless Congress acted), but legislation extended the estate tax and the GST tax in 2011. (For 2010, the estate tax ended up being optional and the GST tax rate was 0%.) The gift and estate tax lifetime exclusion and the GST tax exemption were increased to $5,000,000 and indexed for inflation in later years. For 2013, the top estate, gift, and GST tax rate was increased to 40%, and the extension and modifications were made "permanent."

2017 Estate Planning Key Numbers	
Annual gift tax exclusion	$14,000
Gift tax and estate tax basic exclusion amount	$5,490,000
Noncitizen spouse annual gift tax exclusion	$149,000
Generation-skipping transfer (GST) tax exemption	$5,490,000
Top gift, estate, and GST tax rate	40%

Federal estate tax

Repeal of the estate tax seems possible once again. If repeal occurs, it could be immediate or gradual as during the 2000s. Would it be subject to a sunset provision, so that the estate tax would return at a later time? All of this may depend on congressional rules on the legislative process, other legislative priorities, and the effect the legislation would have on the budget and the national debt.

Federal gift tax

If the estate tax is repealed, the gift tax may also be repealed. However, it is possible that the gift tax would be retained as a backstop to the income tax (as in 2010). To some extent, the gift tax reduces the ability of individuals to transfer property back and forth in order to reduce or avoid income taxes.

Federal GST tax

If the estate tax is repealed, the GST tax would probably be repealed (as in 2010). If the gift tax is not repealed, it is possible that the lifetime GST tax provisions would be retained, but the GST tax provisions at death repealed.

Federal income tax basis

If the estate tax is repealed, it is possible that the general income tax basis step-up (or step-down) to fair market value at death would be changed to a carryover basis (i.e., the decedent's basis before death carries over to the person who inherits the property). In 2010, a modified carryover basis (a limited amount of property could receive a stepped-up basis) applied unless the estate elected to be subject to estate tax. It is also possible that a Canadian-style capital gain tax at death could be adopted in return for a stepped-up basis for the property.

Ten Year-End Tax Tips for 2017

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2018, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2018, could make a difference on your 2017 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2017, prepaying 2018 state and local taxes probably won't help your 2017 tax situation, but could hurt your 2018 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2017 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than $261,500 ($313,800 if married filing jointly, $156,900 if married filing separately, $287,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2017 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2017, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2017 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2017 IRA contributions.

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How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow to pay for college. But there is such a thing as borrowing too much. How much is too much? Well, one guideline for students is to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned by taking out larger mortgages than they could afford (even though lenders may have told them they were qualified for that amount), students can get burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years or longer. A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car payments come into play? What if a borrower steps out of the workforce for an extended period to care for children and isn't earning an income? There are many variables, and every student's situation is different. Of course, a loan deferment is available in certain situations, but postponing payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 4.45% interest rate (the current 2017/2018 rate on federal student loans), this equals a $279 monthly payment. Borrow more by adding in co-signed private loans, and the monthly payment will jump: $40,000 in loans (at the same interest rate) equals a monthly payment of $414, while $60,000 in loans will result in a $620 monthly payment. Before borrowing, students should know *exactly* what their monthly payment will be.

As for families, there is no one-size-fits-all rule on how much to borrow. Many factors come into play including, but not limited to, the number of children in the family, total household income and assets, and current and projected retirement savings.

How can families trim college costs?

Trimming college costs up front can help families avoid excessive college borrowing and the burdensome student loan payments that come with it. Here are some ideas.

1. Pick a college with a lower net price. You can use a college's net price calculator (available on every college's website) to estimate what your net price (out-of-pocket cost) will be at individual colleges. A net price calculator does this by estimating how much grant aid a student is likely to receive based on a family's financial and personal information. Colleges differ on their aid generosity, so after entering identical information in different calculators, you may find that College A's net price is $35,000 per year while College B's net price is $22,000. By establishing an ideal net price range, your child can target schools that hit your affordable zone.

2. Investigate in-state universities. Research in-state options and encourage your child to apply to at least one in-state school. In-state schools generally offer the lowest *sticker* price (though not necessarily the lowest *net* price) and may offer scholarships to state residents.

3. Research colleges that offer generous merit aid. All colleges are not created equal in terms of how much institutional aid they offer. Spend time researching colleges that offer generous merit aid to students whose academic profile your child matches.

4. Graduate early. Earn college credit in high school by taking AP/IB classes and then graduate a semester or two early. Or look at colleges that specifically offer three-year accelerated degree programs.

5. Seek out free room and board. There are two ways to do this: The first is to live at home (though transportation costs might eat into your savings), and the second way is to become a resident assistant (RA) on campus, a job that typically offers free room and board.

6. Work during college. Working during college and contributing modest amounts to tuition along the way — say $1,500 to $3,000 a year — can help students avoid another $6,000 to $12,000 in loans.

7. Combine traditional and online courses. Does the college offer online classes? If so, you may be able to earn some credits at a lower cost over the summer or during breaks.