Emerald Spectrum Advisory

September Newsletter

Emerald Spectrum Advisory
Malissia Johnson,
CFP®,AAMS,CMFC
100 Winners Cir N, Ste 210
Brentwood, TN 37027
615-369-0690
esateam@emeraldspectrum.com
www.emeraldspectrum.com

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.

EMERALD SPECTRUM
ADVISORY
"An Extraordinary Planning Experience"

Examining the Taxpaying Population: Where Do You Fit In?

Sources for data: IRS Statistics of Income Bulletins, Spring 2017 and Summer 2017, Washington, D.C., irs.gov/statistics

What is adjusted gross income (AGI)?

Adjusted gross income, or AGI, is basically total income less adjustments for certain items, such as deductible contributions made to an IRA, alimony paid, and qualified student loan interest paid.

Every quarter, the Statistics of Income Division of the Internal Revenue Service (IRS) publishes financial statistics obtained from tax and information returns that have been filed with the federal government. Recently published reports reflect data gleaned from 2014 individual federal income tax returns. These reports offer a snapshot of how the U.S. population breaks down as taxpayers.

The big picture

For tax year 2014, U.S. taxpayers filed roughly 139.6 million individual income tax returns.[1] Total adjusted gross income reported on these tax returns was $9.71 trillion, resulting in a total income tax of $1.37 trillion. That works out to an overall average tax rate of 14.16% for all returns filed — the highest total average rate in the 10-year period represented by the statistical report.

If your 2014 AGI was $38,173 or more, you were in the top 50% of all federal income tax filers based on AGI. This group accounted for 88.7% of all AGI reported and paid 97.3% of total federal income tax for the year.

A look at the top

How much AGI did it take to make the top 10% of all individual filers? Probably not as much as you might think. If your AGI was $133,445 or greater, you would have been one of the almost 14 million filers making up the top 10%. This group reported about $4.58 trillion in AGI (more than 47% of all AGI reported) and accounted for about 70.9% of total individual income tax for the year.

To make the top 5%, you would have needed $188,996 or more in AGI. You would have been among approximately 7 million filers who reported almost $3.5 trillion in total AGI and accounted for about 60% of total income taxes paid.

It's also worth noting that the top 3% of all 2014 individual income tax returns based on AGI accounted for 52.9% of total income tax paid for the year.

The very, very top

For the 2014 tax year, 1.4 million returns had an AGI of $465,626 or more. These taxpayers make up the top 1% of filers, reporting almost $2 trillion in total AGI and responsible for just under a 40% share of the total tax haul.

The 1,396 income tax returns that showed $56,981,718 or more in AGI make up the top 0.001% (that's the top one-thousandth of 1%) of 2014 filers. These filers together reported over $207 billion in AGI and paid over 3.6% of taxes.

Not all high-income returns showed tax

Of the 6.2 million income tax returns filed for 2014 with an AGI of $200,000 or more, 10,905 showed no U.S. income tax liability (the number drops to 3,927 if you eliminate returns filed by individuals who were responsible for income taxes to foreign governments and had no U.S. income tax because of a credit for such taxes paid).

Why did these high-income returns show no U.S. tax liability? The IRS report noted that these returns show no tax for a variety of reasons, including tax credits and deductions, most notably miscellaneous deductions and deductions for charitable contributions, medical and dental expenses, and investment interest expenses. A significant secondary factor was the deduction for taxes paid.

Average tax rates

Dividing total tax paid by total AGI yields the following average federal income tax rates for the 2014 tax year:

Top Filers (by Percentile)	AGI Threshold	Average Tax Rate
0.001%	$56,981,718	24.01%
0.01%	$11,407,987	25.92%
0.1%	$2,136,762	27.67%
1%	$465,626	27.16%
5%	$188,996	23.61%
10%	$133,445	21.25%
20%	$90,606	18.64%
30%	$66,868	17.19%
40%	$50,083	16.24%
50%	$38,173	15.52%

[1] Excludes returns filed by dependents; based on final estimates for tax year 2014 reported in Spring 2017 Statistics of Income Bulletin

EMERALD SPECTRUM
ADVISORY
"An Extraordinary Planning Experience"

Five Common Financial Aid Myths

Net price calculators

Net price calculators, available on all college websites, provide families with an advance estimate of what their "net" price will be at a particular college based on their income, assets, and personal family information. The net price is the price after grants and scholarships are factored in. This figure gives families a much better idea of the real cost of a particular college so they can make well-informed financial decisions.

With some private colleges now crossing the once unthinkable $70,000-per-year mark in the 2017/2018 school year, and higher costs at public colleges, too, financial aid is essential for many families. How much do you know about this important piece of the college financing puzzle? Consider these financial aid myths.

1. My child won't qualify for aid because we make too much money

Not necessarily. While it's true that family income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor — for example, having two children in college will cut your expected family contribution (EFC) in half. Your assets, overall family size, and age of the older parent also play into the equation.

Side note: Even if you think your child won't qualify for aid, you should still consider filing the government's Free Application for Federal Student Aid (FAFSA) for two reasons. First, all students — regardless of income — who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to file the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid. Bottom line? It's usually a good idea to file this form.

2. The form is too hard to fill out

Not really. Years ago, the FAFSA was cumbersome to fill out. But now that it's online at [fafsa.ed.gov,](http://fafsa.ed.gov) it is much easier to complete. The online version has detailed instructions and guides you step by step. There is also a toll-free number you can call with questions: 1-800-4-FED-AID. All advice is free. In addition, a recent change has made the FAFSA even easer to fill out: The FASFA now relies on your tax information from two years prior rather than one year prior (referred to as the "prior-prior year" or the "base year"). For example, the 2017/2018 FAFSA relies on your 2015 tax information, the 2018/2019 FAFSA relies on your 2016 tax information, and so on. This means that your necessary tax numbers will be handy as you answer questions on the FAFSA. The first time you file the FAFSA, you and your child will need to create an FSA ID, which consists of a username and password.

Side note: The CSS/Financial Aid PROFILE, an additional aid form required by most private colleges, is more detailed than the FAFSA and thus harder to fill out. It essentially takes a financial snapshot of your family's past year, current year, and upcoming year (it asks for estimates for the latter).

3. If my child applies to a more expensive school, we'll get more aid

Not necessarily. Colleges determine your EFC based on the income and asset information you provide on the FAFSA and, where applicable, the CSS PROFILE. Your EFC stays the same no matter what college your child applies to. The difference between the cost of a particular college and your EFC equals your child's financial need (sometimes referred to as "demonstrated need"). The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package — colleges aren't obligated to meet 100% of your child's financial need.

Side note: When making a college list, your child can research a particular college's generosity, including whether it meets 100% of demonstrated need and if it replaces federal loan awards with college grants in its aid packages.

4. We own our home, so my child won't qualify for aid

The FAFSA does not take home equity into account when determining a family's expected family contribution (it also does not consider the value of retirement accounts, cash value life insurance, and annuities).

Side note: The CSS PROFILE does collect home equity and vacation home information, and some colleges may use it when distributing their own institutional aid.

5. I lost my job after I submitted aid forms, but there's nothing I can do now

Not true. If your financial circumstances change after you file the FAFSA — and you can support this with documentation — you can politely ask the financial aid officer at your child's school to revisit your aid package; the officer has the authority to make adjustments if there have been material changes to your family's income or assets.

Side note: A blanket statement of "I can't afford my family contribution" is unlikely to be successful unless it is accompanied by a significant changed circumstance that affects your ability to pay.

EMERALD SPECTRUM
ADVISORY
"An Extraordinary Planning Experience"

Emerald Spectrum Advisory
Malissia Johnson, CFP®,AAMS,CMFC
100 Winners Cir N, Ste 210
Brentwood, TN 37027
615-369-0690
esateam@emeraldspectrum.com
www.emeraldspectrum.com

EMERALD SPECTRUM
ADVISORY
"An Extraordinary Planning Experience"

If I donate used property to charity, what documentation is needed?

The documentation needed to obtain a federal income tax deduction for donating used property to a charity typically depends on the value of the property. In general, do not attach the documentation to your income tax return. Keep the records so that you can provide them to the IRS if requested to do so.

If you claim a deduction of less than $250, you must have a receipt from the charitable organization (a letter acknowledging your contribution will suffice) that shows the name of the organization, the date and location of your contribution, and a reasonably detailed description of the property. You must also have a record of the fair market value (FMV) of the property (and how you determined it) at the time of the contribution.

If you claim a charitable deduction for $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. The acknowledgment must contain the name of the charity and a reasonably detailed description of the property. The acknowledgment must also include either (1) a statement that no goods and services were provided by the charity in return for the contribution, (2) a good-faith estimate of the value of such goods and services (these reduce the amount of the charitable deduction), or (3) a statement that the goods and services were token benefits or consisted entirely of insubstantial membership benefits or intangible religious benefits.

If the value of the contribution is over $500, your records must also include how you acquired the property (e.g., purchase, gift, inheritance, or exchange), when you obtained the property, and the cost or other basis of the property (including any adjustments).

If you claim a deduction of over $5,000 for a noncash charitable contribution of one item or a group of similar items, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser.

If the amount of your deduction for all noncash contributions is more than $500, you must file IRS Form 8283 with your federal income tax return.

Cartoon: College Time