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Ten Year-End Tax Tips for 2017

Examining the Taxpaying Population: Where Do You Fit In?

Is the Social Security Administration still mailing Social Security Statements?

What are some tips for reviewing my Medicare coverage during Medicare Open Enrollment?



# eResources Review

## Asset Management Resources' E-mail Newsletter

### 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.

## Ten Year-End Tax Tips for 2017



### **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.

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.

## 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](http://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.<sup>1</sup> 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%

<sup>1</sup> Excludes returns filed by dependents; based on final estimates for tax year 2014 reported in Spring 2017 Statistics of Income Bulletin

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## Is the Social Security Administration still mailing Social Security Statements?

Your Social Security Statement provides important information about your Social Security record and future benefits. For several years, the Social Security Administration (SSA) mailed these statements every five years to people starting at age 25, but due to budgetary concerns, the SSA has stopped mailing Social Security Statements to individuals under age 60.

Workers age 60 and over who aren't receiving Social Security benefits will still receive paper statements in the mail, unless they opt to sign up for online statements instead. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA will mail statements upon request to individuals under age 60.

However, the quickest way to get a copy of your Social Security Statement is to sign up for a *my* Social Security account at the SSA website, [ssa.gov](http://ssa.gov). Once you've signed

up, you'll have immediate access to your statement, which you can view, download, or print. Statement information generally includes a projection of your retirement benefits at age 62, at full retirement age (66 to 67), and at age 70; projections of disability and survivor benefits; a detailed record of your earnings; and other information about the Social Security program.

The SSA has recently begun using a two-step identification method to help protect *my* Social Security accounts from unauthorized use and potential identity fraud. If you've never registered for an online account or haven't attempted to log in to yours since this change, you will be prompted to add either your cell phone or email address as a second identification method. Every time you enter your account username and password, you will then be prompted to request a unique security code via the identification method you've chosen, and you need to enter that code to complete the log-in process.



## What are some tips for reviewing my Medicare coverage during Medicare Open Enrollment?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make

changes to your Medicare coverage that will be effective on January 1, 2018. If you're satisfied with your current coverage, you don't need to make changes, but it's a good idea to review your options.

During Open Enrollment, you can:

- Change from Original Medicare to a Medicare Advantage plan, or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare prescription drug plan, switch from one Medicare prescription drug plan to another, or drop prescription drug coverage

The official government handbook, *Medicare & You*, which is available electronically or through the mail, contains detailed information about Medicare that should help you determine whether your current coverage is appropriate. Review any other information you receive from your current plan, which may include an Annual

Notice of Change letter that lists changes to your plan for the upcoming year.

As you review your coverage, here are a few points to consider:

- What were your health-care costs during the past year, and what did you spend the most on?
- What services do you need and which health-care providers and pharmacies do you visit?
- How does the cost of your current coverage compare to other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance; are any of these costs changing?

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at [medicare.gov](http://medicare.gov). You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.

