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Callahan Financial Newsletter

Keeping you current

Protecting Your Business from Cyber Threats

Risk management is a key component in any successful business plan. In today's world--where data breaches are common occurrences--it's especially important for business owners to understand the digital risks they face. Are you doing all you can to mitigate the risk of a cyber attack?

Understanding the risks

Many small-business owners may think their organizations hold little appeal to hackers due to their small size and limited scope. However, according to the Small Business Administration (SBA), this naivete may actually make them ideal targets. Small businesses are keepers of employee and customer data, financial account information, and intellectual property. Their systems, if not adequately protected, may also inadvertently provide access to larger supplier networks. "Given their role in the nation's supply chain and economy, combined with fewer resources than their larger counterparts to secure their information, systems, and networks, small employers are an attractive target for cybercriminals," reports the SBA on its cybersecurity website.

Consider the following tips compiled from information supplied by the SBA, the Federal Trade Commission (FTC), and the Federal Communications Commission (FCC).

Cybersecurity tips

1. Assess: To protect your organization, you must first understand your vulnerabilities. How are your systems protected? Do you collect and store personal information of customers and employees, such as credit-card information, Social Security numbers, and birth dates? If so, how is this information stored and who may access it? Do you have a Wi-Fi accessible to employees and customers? How do your vendors and other third-party service providers protect their information? It may help to engage a professional to help identify your risks.

2. Protect: Ensure you have firewall and encryption technology protecting your Internet connections and Wi-Fi networks. Make sure your business's computers have antivirus and antispyware software installed and updated automatically. Require employees and others who access your systems to use complex passwords that are changed regularly. Keep only personal data that you actually need and dispose of it securely as soon as it no longer serves a business purpose. Back up critical information and data on a regular basis, and store the backups securely offsite. Assign individual user accounts to employees and permit access to software and systems only as needed. Be especially cautious with laptops and company-assigned smartphones. Question third-party vendors to ensure that their security practices comply with your standards.

3. Document: Establish clear security policies and procedures and put them in writing. Cover such topics as handling sensitive or personal information, appropriate use of Internet and social media, and reporting vulnerabilities. Clearly spell out consequences for failing to follow the policies.

4. Educate: Develop a mandatory employee training program on the importance of cybersecurity. Explain the basics of personal information, as well as what is and isn't acceptable to post on social media. Employees could unknowingly release information that could be used by competitors or, worse, by criminals. Ensure that employees understand the risks associated with phishing emails, as well as "social engineering"--manipulative tactics criminals use to trick employees into divulging confidential information.

For more information

Business owners who want to learn more can find a wealth of helpful information online. In addition to visiting the SBA's cybersecurity website, business owners might want to review "Protecting Personal Information: A Guide for Business" and "Start with Security: A Guide for Business," both available on the FTC's website.

When Disaster Strikes: Deducting Casualty Losses

A list of federally declared disaster areas can be found at the Federal Emergency Management Agency (FEMA) website at [fema.gov/disasters.](fema.gov/disasters) Major disaster and emergency declarations in 2015 included areas in 30 states.

Wildfires, tornadoes, storms, landslides, and flooding.... It's almost as if you can't turn on the news without seeing images of a disaster striking somewhere. If you've suffered property loss as the result of these events or other circumstances, you may be able to claim a casualty loss deduction on your federal income tax return.

What's a casualty loss?

A casualty is the destruction, damage, or loss of property caused by an unusual, sudden, or unexpected event. You can experience a casualty loss as the result of something as sweeping as a natural disaster, or as limited in scope as an act of vandalism. You probably don't have a deductible casualty loss, however, if your property is damaged as the result of gradual deterioration (e.g., a long-term termite infestation).

Calculating your loss

The rules for calculating loss can be different for business property, or property that's used to produce income (think rental property). To calculate a casualty loss on personal-use property, like your home, that's been damaged or destroyed, you first need two important pieces of data:

- The decrease in the fair market value (FMV) of the property; that's the difference between the FMV of the property immediately before and after the casualty
- Your adjusted basis in the property before the casualty; your adjusted basis is usually your cost if you bought the property (different rules apply if you inherited the property or received it as a gift), increased for things like permanent improvements and decreased for items such as depreciation

Starting with the lower of the two amounts above, subtract any insurance or other reimbursement that you have received or that you expect to receive. The result is generally the amount of your loss. If you receive insurance payments or other reimbursement that is more than your adjusted basis in the destroyed or damaged property, you may actually have a gain. There are special rules for reporting such gain, postponing the gain, excluding gain on a main home, and purchasing replacement property.

The $100 and 10% rules

After you determine your casualty loss on personal-use property, you have to reduce the loss by $100. The $100 reduction applies per casualty, not per individual item of property. Two or more events that are closely related may be considered a single casualty. For example, wind and flood damage from the same storm would typically be considered a single casualty event, subject to only one $100 reduction. If both your home and automobile were damaged by the storm, the damage is also considered part of a single casualty event--you do not have to subtract $100 for each piece of property.

You must also reduce the total of all your casualty and theft losses on personal property by 10% of your adjusted gross income (AGI) after each loss is reduced by the $100 rule, above.

If you are married and file a joint return, you are treated as one individual in applying both the $100 rule and the 10% rule. It does not matter whether you own the property jointly or separately. If you file separately, you are each subject to both rules. If only one spouse owns the property, usually only that spouse can claim the associated loss on a separate return.

Reporting a casualty loss

Generally, you report and deduct the loss in the year in which the casualty occurred. Special rules, however, apply for casualty losses resulting from an event that's declared a federal disaster area by the president.

If you have a casualty loss from a federally declared disaster area, you can choose to report and deduct the loss in the tax year in which the loss occurred, or in the tax year immediately preceding the tax year in which the disaster happened. If you elect to report in the preceding year, the loss is treated as if it occurred in the preceding tax year. Reporting the loss in the preceding year may reduce the tax for that year, producing a refund. You generally have to make a decision to report the loss in the preceding year by the federal income tax return due date (without any extension) for the year in which the disaster actually occurred.

Casualty losses are reported on IRS Form 4684, Casualties and Thefts. Any losses relating to personal-use property are carried over to Form 1040, Schedule A, Itemized Deductions.

Getting help

The rules relating to casualty losses can be complicated. Additional information can be found in the instructions to Form 4684 and in IRS Publication 547, Casualties, Disasters, and Thefts. If you have suffered a casualty loss, though, you should consider discussing your individual circumstances with a tax professional.

What's New in the World of Higher Education?

If you're a parent or grandparent of a college student or soon-to-be college student, you might be interested to learn what's new in the world of higher education.

Higher college costs

Total average costs for the 2015/2016 school year increased about 3% from the previous year: $24,061 for public colleges (in-state), $38,855 for public colleges (out-of-state), and $47,831 for private colleges.[1]

Total average costs include direct billed costs for tuition, fees, room, and board; and indirect costs for books, transportation, and personal expenses. Together, these items are officially referred to as the "total cost of attendance." Note that the cost figure for private colleges cited by the College Board is an average; many private colleges cost substantially more--over $60,000 per year.

Higher student debt

Seven in 10 college seniors who graduated in 2014 (the most recent year for which figures are available) had student loan debt, and the average amount was $28,950 per borrower.[2] It's likely this amount will be higher for the classes of 2015 and 2016.

Student loan debt is the only type of consumer debt that has grown since the peak of consumer debt in 2008; balances have eclipsed both auto loans and credit cards, making student loan debt the largest category of consumer debt after mortgages. As of September 2015, total outstanding student loan debt was over $1.2 trillion.[3]

Reduced asset protection allowance

Behind the scenes, a stealth change in the federal government's formula for determining financial aid eligibility has been quietly (and negatively) impacting families everywhere. You may not have heard of the asset protection allowance before. But this figure, which allows parents to shield a certain amount of their nonretirement assets from the federal aid formula, has been steadily declining for years, resulting in higher expected family contributions for families. For the 2012/2013 year, the asset protection allowance for a 47-year-old married parent was $43,400. Today, for the 2016/2017 year, that same asset protection allowance is $18,300--a drop of $25,100. The result is a $1,415 decrease in a student's aid eligibility ($25,100 x 5.64%, the federal contribution percentage required from parent assets).

New FAFSA timeline

Beginning with the 2017/2018 school year, families will be able to file the government's financial aid application, the FAFSA, as early as October 1, 2016, rather than having to wait until after January 1, 2017. The intent behind the change is to better align the financial aid and college admission timelines and to provide families with information about aid eligibility earlier in the process.

One result of the earlier timeline is that your 2015 federal income tax return will do double duty as a reference point for your child's federal aid eligibility--it will be the basis for the FAFSA for *both* the 2016/2017 and 2017/2018 years.

School Year	Tax Return Required	FAFSA Earliest Submission
2016/2017	2015	January 1, 2016
2017/2018	2015	October 1, 2016
2018/2019	2016	October 1, 2017

American Opportunity Tax Credit now permanent

The American Opportunity Tax Credit was made permanent by the Protecting Americans from Tax Hikes Act of 2015. It is a partially refundable tax credit (meaning you may be able to get some of the credit even if you don't owe any tax) worth up to $2,500 per year for qualified tuition and related expenses paid during your child's first four years of college. To qualify for the full credit, single filers must have a modified adjusted gross income (MAGI) of $80,000 or less, and joint filers must have a MAGI of $160,000 or less. A partial credit is available for single filers with a MAGI over $80,000 but less than $90,000, and for joint filers with a MAGI over $160,000 but less than $180,000.

New REPAYE plan for federal loans

The pool of borrowers eligible for the government's Pay As You Earn (PAYE) plan for student loans has been expanded as of December 2015. The new plan, called REPAYE (Revised Pay As You Earn), is available to *all* borrowers with federal Direct Loans, regardless of when the loans were obtained (the original PAYE plan is available only to borrowers who took out loans after 2007).

Under REPAYE, monthly student loan payments are capped at 10% of a borrower's discretionary income, with any remaining debt forgiven after 20 years of on-time payments for undergraduate loans and 25 years of on-time payments for graduate loans. To learn more about REPAYE or income-driven repayment options in general, visit the federal student aid website at studentaid.gov.

Tools for students

The Department of Education and the Consumer Financial Protection Bureau have launched the "Know Before You Owe" campaign, which includes a standard financial aid award letter for colleges to use so that students can better understand the type and amount of aid they qualify for and more easily compare aid packages from different colleges. In addition, to help students search for and select suitable colleges, the Department has launched its College Scorecard online tool at collegescorecard.ed.gov.

Sources

[1] College Board, Trends in College Pricing 2015

[2] The Institute for College Access and Success, Student Debt and the Class of 2014, October 2015

[3] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, November 2015

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What is the federal funds rate?

In December 2015, the Federal Open Market Committee (FOMC) raised the federal funds target rate to a range of 0.25% to 0.50%, the first shift from the rock-bottom 0% to 0.25% level where it had remained since December 2008.

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve, usually overnight, in order to meet reserve requirements. The Fed also raised a number of other rates related to funds moving between Federal Reserve banks and other banks. The Fed does not directly control consumer savings or credit rates, but the federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds.

The prime rate, which commercial banks charge their best customers, is typically about 3% above the federal funds rate. Other forms of business and consumer credit--such as small-business loans, adjustable-rate mortgages, auto loans, and credit cards--are often directly linked to the prime rate. Actual rates can vary widely. Fixed-rate home mortgages and other long-term loans are generally not linked directly to the prime rate, but may be indirectly affected by it

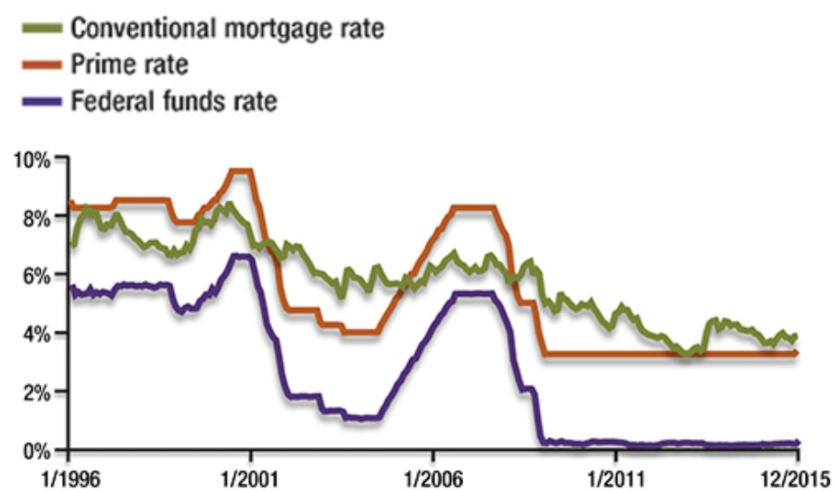
The FOMC expects economic conditions to "warrant only gradual increases" in the federal funds rate. Most Committee members projected a target range between 0.75% and 1.75% by the end of 2016, so you can probably expect a series of small increases this year. Although rising interest rates make it more expensive for consumers to borrow, higher rates could be good for retirees and savers who seek current income from bank accounts, CDs, bonds, and other fixed-interest investments.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Source: *Federal Reserve, 2015*

Chart: Tracking the Fed

Although the prime rate has been closely aligned to the federal funds rate over the past 20 years, rates on conventional 30-year fixed mortgages have followed a more independent trajectory, generally trending downward over the period.



Source: *Federal Reserve, 2016*