



Strothman+Co

Financial  
News  
and  
Views

At Strothman and Company we help entrepreneurial businesses grow. At every stage. Every day. That's why we keep you up to date on relevant issues.

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## Strothman Spotlight



Strothman and Company are members of CPA Associates International ("CPAAI"), an association of over 140 CPA firms in nearly 60 countries. We have been members for over 15 years. CPAAI allows us to have global reach and access to resources so we can more effectively provide services to our clients who operate Nationally and Internationally. Bill Meyer was recently appointed to the North American Board of Directors of this organization. Ray Strothman previously served as Chairman and was also a member of the International Board of Directors. Click [here](#) for their website.

CPAAI committee appointments were recently made. Our firm is represented as follows:

- Lynn Clark - Firm Administrators
- Darren Forish - Litigation Services
- Melissa Fraser - Practice Management
- Jennifer French - Employee Benefits

- Lisa Holden - Information Technology
  - Stephani Howard - Marketing
  - Joe Johnston - Tax
  - Jeanna Jones - Not-For-Profit
  - Jenna McCammon - Human Resources
  - Bill Meyer - Wealth Management
  - Rory Satkoski - Business Valuations, Forensic Accounting
  - Jim Stevison - Accounting & Assurance
  - Ray Strothman - Advisory Board - North America, Membership (Chairman)
  - Dennis Thomas - Family Business
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## **The Perks and Pitfalls of Managing Your 401(k)**

If you have turned 50, by all means take advantage of the catch-up contribution to 401(k) plans, where you may defer an extra \$6,000 for a total of \$24,000 in tax-deferred dollars each year until you retire. Even if you don't turn 50 until Dec. 31, you may add the extra \$6,000 to your contributions for 2016. If your employer matches your contribution up to a certain percentage, imagine how much more money you can accumulate by retirement. And that extra catch-up amount further helps reduce your income tax bill. For example, if you're in the 25 percent tax bracket and contribute the full \$24,000 to a 401(k), you would pay \$6,000 less in income taxes each year.

However, not everyone can contribute \$24,000 of their income and still make ends meet. One strategy is to divvy up the paychecks of a two-income household unevenly. For example, if one spouse is 50 or older but the other is not, you could allocate a higher percentage of the 50+ earner's salary to his 401(k) and more of the younger earner's salary to living expenses. If one spouse doesn't have access to a 401(k) plan, max out the 401(k) first and then contribute whatever discretionary income is left between the two salaries to separate traditional IRAs to maximize your tax deductions.

### **Auto Escalation**

In recent years, many employers have launched new programs designed to improve worker participation in 401(k) plans. The first is auto-enrollment, in which new employees are automatically enrolled when they start working at a company. A minimum deferral percentage is automatically deducted from their wages.

The second program is auto escalation, in which the employer automatically increases the amount each participant defers to the 401(k) on an annual basis. Both of the plans allow workers to opt out of the automatic deferrals or increases, but they must actively do so. Since nearly 50 percent of large employers currently auto escalate worker contributions to their 401(k) plans by 1 percent or more each year, there's a good chance this is happening under your radar. In fact, since deferrals are taken out of your paycheck before taxes, you might not even notice the offset. This isn't necessarily a bad thing, but you should be aware of what money is taken out of your paycheck and where it goes.

Another 401(k) management tactic that is often overlooked is rebalancing. When you first signed up for your 401(k), you probably selected a mix of funds based on how long you have until retirement and how much market risk you want to take. Bear in mind though, that the stock

market has outperformed for several years now, and the financial markets experienced a fair amount of volatility in just the first quarter of this year. Now might be a good time to review your 401(k) account to see if it is weighed too heavily in one asset over others. By rebalancing, you can reinvest your gains from recent years into securities with more growth potential, while at the same time restore your original allocation and potentially reduce your overall portfolio risk.

Many investors take an "invest and ignore" attitude toward their 401(k) plan. Even though it may not be as actively managed as a taxable investment portfolio, it should be reviewed periodically to ensure investments are performing to your satisfaction. Furthermore, your plan's asset allocation is more likely to help meet your long-term goals than the short-term performance of any one holding or asset class.

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## **Tax Tactics to Help with College Costs**

Now that we are in the midst of tax filing season, it is a great time for families and college students to re-familiarize themselves on the available tax benefits that could potentially lower higher education costs.

According to research by Sallie Mae, the average family with higher education costs spends more than \$24,000 a year on college. However, only one-third of these same families take advantage of federal tax credits and deductions that can help make college more affordable.

The availability of these tax benefits are based on a number of criteria and have varying rules and limitations. Understanding and deciding what is best for your situation can be tricky and take time, but is often well worth it. Hiring a CPA can be useful to help you navigate the process. Now let's look at the details.

### **American Opportunity Tax Credit**

Families can receive a credit of up to \$2,500/year per student for up to four years. This is particularly beneficial if you have more than one student in college at the same time. It is also partially refundable, allowing you to receive up to \$1,000 even if you owe no taxes.

The credit is limited by a taxpayer's adjusted gross income. It starts to phase out at \$80,000 and \$160,000 for single and married filers, respectively, and is completely unavailable once AGI reaches \$90,000 and \$180,000.

### **Lifetime Learning Credit**

This credit offers up to \$2,000 a year, per taxpayer return. Note that this credit is not per student, but per taxpayer. Any post-high school education qualifies and there is no limit on how long it can be claimed. Also, unlike the American Opportunity Credit, this one is not refundable.

This credit is also subject to AGI limits. The lifetime learning credit starts to phase out at \$55,000 for single filers and \$110,000 for joint filers and becomes completely unavailable at \$65,000 and \$130,000, respectively.

### **Tuition and Fees Deduction**

Even if you don't qualify for one of the above credits, you may still be able to deduct qualified tuition and fees. The tuition and fees deduction is available even if you do not itemize your deductions.

Single filers with an AGI of \$65,000 or less can deduct up to \$4,000 and up to \$2,000 for those between \$65,000 and \$80,000. Married taxpayers filing jointly are eligible for the \$4,000 deduction if their AGI is less than \$130,000 and they can get the \$2,000 deduction with an AGI between \$130,000 and \$160,000. Once a taxpayer exceeds these income thresholds, no deduction is available.

### **The Fine Print**

There are a number of nuisances to remember as you navigate the available credits and deductions. For example, if a student qualifies for more than one of the above you can only take a credit or the deduction, but not both. You can mix and match, however. If a family has more than one student, you can claim different credits for different children.

One of the more common approaches to maximize these credits is to claim the American Opportunity Tax Credit for four years when a student is an undergraduate and then switch to the Lifetime Learning Credit for graduate school.

### **Student Loan Interest Deduction**

If you have student loans, the interest you pay may also be deductible. You do not need to itemize to receive the student loan interest deduction. The deduction offers up to \$2,500 off of your taxable income for single filers making up to \$80,000 and married taxpayers up to \$160,000. The deduction is available to the taxpayer obligated to repay the loan. In other words, a student who is not claimed as a dependent on another taxpayer's return may claim the deduction, even if the parent is the one repaying the loan.

### **Source**

[http://news.salliemae.com/files/doc\\_library/file/HowAmericaPaysforCollege2015FNL.pdf](http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2015FNL.pdf)

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## **Technology: Ransomware - Insidious and Growing Fast**

Imagine a major hospital crippled by a deliberate effort to block its access to patients' records. After the hospital pays online extortionists a hefty ransom, the cyber crooks will unlock the data. Meanwhile, the medical facility lacked access to its network, email and patient data - including lab work and scans. This is not the plot of a TV movie, but just one example of a disturbing new type of cybercrime that is becoming widespread in Europe and the United States.

Ransomware criminals use encryption to block users from their online files - releasing the locked-up data when the targeted entity pays a ransom. Instances of this type of online extortion grew a whopping 170 percent in 2015 - with the majority of cases occurring in the U.K. Attacks in the United States have been on the rise, and now the majority of attacks worldwide occur here.

### **Impact on Small Businesses**

In the beginning, attacks targeted small and medium-sized businesses as well as individual consumers. Cyber criminals were more likely to encounter weaker security systems and lax backup procedures at smaller firms, and many cyber-crooks chose high volume and lower returns rather than tackling larger organizations with more sophisticated security protection. Criminals discovered that victims were most likely to pay up without contacting the police if the ransom demand stayed modest - within the hundreds of dollars realm. Online extortionists now have turned their attention to larger organizations, demanding tens of thousands of dollars.

## **How do the online extortionists get access?**

Usually through infected email. Investigators cannot unlock the ransomed files, which are heavily encrypted, unless they find the cyber-crooks' control servers, which could be anywhere in the world.

## **What can you do?**

A notorious ransomware threat known as Cryptolocker comes as an email or via a downloader brought along as an extra component. Its authors continue to create new variants, target different groups and repel changes in security technology. Seek professional IT assistance to lessen your vulnerability. In the interim, here are several simple steps you can take to protect your files.

1. Back up your data to safe storage frequently. That way, if you are attacked, you can restore your system to an earlier setting without losing many files. Cryptolocker attacks all drives that are mapped (e.g., those tagged D or E drives), including external drives like USB thumb drives. This means that your backup system must either include an external drive that is disconnected when not actively backing up your files or an online provider of automated backup services.
2. Crooks use email (with attachments) as a way into victims' systems. Recently, Cryptolocker has used files with the extension PDF.EXE (this may have changed by the time you read this). Set your gateway mail scanner to filter files and deny entry to emails with two file extensions - the last extension being the executable component.
3. If your computer is able to allow others to access your machine remotely and you don't use this function, known as Remote Desktop Protocol or RDP, disable it. This is another favorite entry point for ransomware.
4. Keep your security software fully updated - use automatic updates, whenever possible. Don't delay downloading manufacturers' updates. Use top quality anti-malware PLUS a software firewall.

Following recent brazen attacks on the BBC and The New York Times, Ransomware has attracted significant attention. It is a major threat, but smart defensive strategies combined with good recovery protocols can help keep your data safe.

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## **Stock Market: Spring Forward**

March was a milestone month for the stock market. On March 9, the bull run celebrated its seventh birthday - one for the record books. Starting its first uptick at the end of the recession in 2009, this bull market is the third longest in history and roughly two years longer than the average bull run. Reports of its imminent demise have been around since year three, with actual market results continually confounding Wall Street's best. Mid-March, we saw the Dow Jones Industrial Average turn positive for the year, overcoming its bad start to the new year. So far, this market's seventh year has turned ominous at various times - notably in February when it slid 15 percent to hover perilously close to the 20 percent traditionally required as a signal that a bull run is over. With this in mind, the investment community has greeted this birthday with muted enthusiasm - many brokers noted that more than 200 companies in the DJIA index are in bearish territory - down 20 percent or more from their 2015 highs. What are the trends for the market in the second quarter and beyond? Has the market topped out, and should we brace for change?

The experts have been no better at timing the market than the individual investor. The following factors are shaping forecasts and expectations.

- This market has continued its overall gains despite distrust and lingering fears of a return to recession. Some attributed its successes to the quantitative easing policies of the Federal Reserve - an unprecedented policy that was embraced by some investment experts, but not all. Some feared the Fed's stimulus could be withdrawn at any point, ushering in a return to stock losses.
- Investors still have not returned to the market with an enthusiasm matching the speed with which they withdrew pre-2009. Investors appear to favor overseas stock funds and other investment instruments more than ever.
- Fears of a recession - here and worldwide - continue to linger. Some investors worry over the modest rate of economic growth in the United States and the slow rebound in the job market. More recently, declining oil prices and the consequences for energy companies and oil field suppliers have further cast gloom on economic predictions.
- Everything is relative. The U.S. economy and markets may not wow investors, but compared to those in China and in the European Economic Community, they look good. Consumer spending continues to rise with economic expansion expected to reach a modest 2.2 percent for the year.
- Of course, the slowdown in China and financial crises in Europe give rise to worries about declining U.S. exports to this part of the world. The dollar's strength against other currencies also makes American goods pricier in foreign markets.

Weighing all the data and opinions, many investment strategists are anticipating a continued bull run - one that remain modest and slow. Bearish analysts will continue to cite worldwide debt crises and geopolitical strife as growing threats, but their bullish colleagues still think there is life in the old bull run yet.

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## **Tip: Productivity Hacks for Procrastinators**

For procrastinators looking for ways to avoid the important tasks in front of them, we live in dangerous times. If avoidance and procrastination is a problem for you - and for most people it is to some degree - here are some tried and true tips to stay on task, productive and still have time for leisure.

1. Start with the basics - get enough sleep and eat breakfast. It might sound corny, but facing the day sleep-deprived with low blood sugar is a sure-fire way into a daily downward spiral. Breakfast doesn't have to be complicated. Blend up a yogurt/fruit smoothie with some Greek yogurt (which has more protein than other types), and you'll start the day with protein and many important nutrients. You can make this the night before and drink it as you grab your work papers or your morning coffee.
2. Most of us start the day with some sort of plan and allow ourselves to get side-tracked as the day progresses. Interruptions and distractions seem to multiply throughout the day. With this in mind, start your work day with the your most challenging (or least-favorite) task first. Getting a head start on a major task first - even before checking your email - will help you feel in charge and motivated.
3. While we are on the subject of distractions, try to eliminate or minimize the many self-

imposed time-wasters that we all have to negotiate. It's imperative that procrastinators turn off the alerts on their phones or iPads. If your job requires you to respond quickly to certain emails or calls, utilize the features of your email or smart phone to create a VIP list, and limit this list to only those contacts who truly merit an instant response. For all others, set specific times and time allotments to return calls, check personal emails, Facebook or Twitter accounts. There are many other communication sources that can suck you down a rabbit hole. These time-wasters might include surfing the net for serious news, like stock market data, news releases or even online versions of industry publications. Without exercising constant discipline, it is so easy to justify getting off-track pursuing interesting leads rather than key tasks.

4. Adopt the two-minute rule. If something takes less than two minutes from start to finish - e.g. responding to a request for a meeting time - just do it and get it out of the way. For the rest of your tasks, the pros suggest ditching the to-do list - you know the one that always has a few items that never get completed - in favor of scheduling chunks of time to handle specific tasks. Chances are this will not only help you be productive, but it will force you to be realistic about what you might be able to accomplish in a day, a week, etc.
5. Take breaks. Opinions vary as to the amount of time the human brain can focus on any given task. However, we all know that posture, breathing and blood sugar all suffer when we hunch over our keyboards or laptops without stretching, moving or taking a meal break. A quick walk around the building, a snack or a short tea or coffee break can revitalize us noticeably and make us more productive when we return to our work. Hydration also is key. Most of us forget to drink sufficient water, even if we remember to take lunch breaks.

None of the above make tough tasks easier, but they do help us to avoid the pitfalls and pressures -both unavoidable and self-imposed - that block our productivity.

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## **Technology: Is Wearable Technology a Cyber-Security Threat?**

Wearable technology - Apple Watch, Fitbit or Google Glass - has gone mainstream. Businesses that have addressed security issues involving employees' smart phones and tablets in the workplace now must take a close look at the possible security and privacy issues created by wearable technology in the workplace.

The issues wearables bring to the table are just as relevant to small business owners as they are to CEOs of major companies. This article looks at the potential risks and ways to tackle this complex issue. (The company-sanctioned use of wearables on the factory floor to improve safety and on the sports field to monitor training is worth a separate discussion.)

Wearables comprise four main categories: smart glasses and headgear, smart watches, wearable medical devices and fitness trackers. All of these have one or more features that:

- sense and translate data;
- collect and prepare data for transmission; and/or
- transmit data to off-site storage for processing and reporting.

In simpler terms, some workers arrive at work with technology that wouldn't be out of place in a spy movie. Many of the devices available to consumers are able to go way beyond their primary function - e.g., the more expensive fitness trackers also monitor vital signs and offer email and

Internet connectivity. The same is true for smart watches that also allow users to pay for goods and services.

You get the picture. It's not hard to see how the Internet of things - the connectivity that links an employee's watch to a personal mobile device that in turn has access to a company's network where sensitive financial and customer information is stored - suddenly becomes a cyber-security nightmare. All this seemingly innocuous personal technology could be used by an employee, or by a cyber thief hacking into the unwitting employee's wearable technology. Wearables also can infect other data sources if they harbor malware.

Businesses both small and large need security policies for wearable technology. It is important to add this issue to employee training. Employees must understand that cyber-crooks armed with signal interceptors can hijack wearables without the owner's knowledge, and that workplace restrictions on wearables do not mean that individual employees are under suspicion. You will want to devise your own regulations, but consider the following cyber-security recommendations with regard to both wearables and traditional technology.

- Employees wearing smart watches should use the maximum security level available when they sync the watch with their smart phone.
- Encryption must be used every time confidential data (including passwords) are transmitted from wearables to other data sources.
- Businesses should install (and update frequently) the most up-to-date malware detection programs capable of finding threats, regardless of where the problem originates.
- Businesses must protect themselves against industrial espionage by limiting, or prohibiting, smart phone usage and wearables in meetings where sensitive/confidential information is shared, and in research labs where product prototypes may be on display.

As technology continues to evolve, so do the risks and issues involved in its use. Awareness and the inclusion of employees in efforts to limit risk are vital tools in maintaining cyber-security.

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## 2016 Strothman and Company Seminar Series

We are pleased to announce our 2016 Seminar Series. Strothman and Company has been providing these complementary programs for over 30 years, demonstrating our commitment to education and continuous improvement. In addition to these seminars, others may be added during the year. Be sure to watch for our monthly newsletters and seminar invitations! Please invite friends and associates to attend these FREE seminars.

### **Investing in a Turbulent Market**

*Managing Your Risks*

**May 12, 2016**

8 - 10 AM

Owl Creek Country Club

### **Cloud Accounting**

*The Technology Savvy Way to Run Your Business*

**August 18, 2016**

8 - 10 AM

Owl Creek Country Club

### **Business Ethics**

*Learning from the Mistakes of Others*

**September 21, 2016**

8 - 10 AM

University of Louisville -

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Shelby Campus

**Expanding Your Business Nationally & Internationally**

*Tax and Business Considerations*

**October 20, 2016**

8 - 10 AM

Owl Creek Country Club

**Tax Update**

*Preparing for a Changing Environment*

**November 10, 2016**

8 - 10 AM

Owl Creek Country Club

**21st Annual StroCo University**

*Blazing Trails*

**December 1, 2016**

8 - 12 PM

University of Louisville -  
Shelby Campus

Strothman and Company seminars are designed to qualify for Continuing Professional Education (CPE) for CPAs.

If you have any questions, please call Stephani at 502.585.1600 or email [showard@strothman.com](mailto:showard@strothman.com)

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