



Johnston Investment Counsel

Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jicinvest.com
www.jicinvest.com

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Should I co-sign my daughter's private student loan?



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Quiz: How Much Do You Know about Social Security?



You're probably covered under Social Security--according to the Social Security Administration, an estimated 165 million workers are*--but how much do you know about this program? Test your

knowledge by answering the following questions.

Questions

1. If you decide to collect your retirement benefit starting at age 62, your benefit will be how much less than if you wait until your full retirement age?

- a. 5% to 10% less
- b. 15% to 20% less
- c. 25% to 30% less
- d. 35% to 40% less

2. Your spouse and children may be eligible for benefits if something happens to you.

- a. True
- b. False

3. The Social Security taxes that are collected from your paycheck are called:

- a. FUTA taxes
- b. FETA taxes
- c. FICA taxes

4. Once you reach full retirement age, you can work and earn as much as you want without reducing your Social Security benefit.

- a. True
- b. False

5. Once you begin receiving your retirement benefit, it will never increase.

- a. True
- b. False

Answers

1. c. If you were born in 1943 or later, you'll see a 25% to 30% reduction in your retirement benefit if you claim Social Security benefits at age 62, rather than waiting until your full retirement age (which is 66 to 67, depending on your year of birth). This reduction is permanent.

2. a. Social Security isn't just for retirees. Your spouse and dependent children may be able to receive survivors or disability benefits based on your earnings record if certain eligibility requirements are met.

3. c. Social Security payroll taxes are called FICA taxes because they are collected under the authority of the Federal Insurance Contributions Act. FICA includes two separate taxes: Social Security and Medicare. The Social Security portion is withheld from your pay at a rate of 6.2% (matched by your employer), but only on earnings up to the maximum earnings limit for the year (\$117,000 in 2014).

4. a. Before you reach full retirement age, your benefit will be reduced if your earnings exceed certain limits, but these earnings limits no longer apply once you reach full retirement age.

5. b. There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLA). Second, the Social Security Administration recalculates your benefit every year to account for new earnings, so your benefit might increase as a result. Your benefit might also be adjusted if you qualify for a higher benefit based on your spouse's earnings once he or she files for Social Security.

For more information, visit the Social Security Administration's website, www.ssa.gov.

*Social Security Basic Facts, 2014

10 Basic Tax To-Dos for the Rest of 2014

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

1. Make 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 when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, 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 2014 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 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than \$254,200 (\$305,050 if married filing jointly, \$152,525 if married filing separately, \$279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. 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, making it a significant consideration when it

comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take 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 and participating in an employer-sponsored 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 the amount that should have been distributed.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

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, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.



AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

IRA and retirement plan contributions

For 2014, you can contribute up to \$17,500 to a 401(k) plan (\$23,000 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 2014 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 to make 2014 IRA contributions.



Bitcoin: Digital Future or Frenzy?



The Internal Revenue Service has said it will treat Bitcoin holdings as property rather than as a currency for tax purposes. This means the sale or exchange of bitcoins that have gained in value since they were acquired could potentially trigger a tax liability. Also, payments made in bitcoins are subject to the same information reporting requirements as any other payments made in property.

***Source: "Bitcoin panic selling halves its value," April 11, 2013, BBC News (www.bbc.co.uk)**

****Source: www.bitcoincharts.com**

The five-year-old digital phenomenon known as Bitcoin has received a lot of attention. If you're unclear on what all the fuss is about, here's a brief introduction to what it is, how it works, and some of the potential pitfalls it presents.

Bitcoin isn't a company but a virtual currency supported by a peer-to-peer computer-based electronic cash system first outlined in 2009. Unlike printed currency or coins that are minted, Bitcoin is created by "mining"--using complex software to solve complicated mathematical computations. Solving a problem creates a so-called "block," and the computer that solved it is rewarded with a set number of digital bitcoins, each of which is a set of one public and one private cryptographic key. (The units are generally "bitcoins," while the general system is "Bitcoin.") The number of solutions that can be discovered globally per hour (and thus the number of "blocks" created and bitcoins mined) is limited by the system's software code. The total number of bitcoins available to be mined eventually is said to be limited to 21 million. Most users acquire them either by buying them with physical currencies such as dollars or accepting them as payment for goods and services.

Advocates argue that the advantages of the system are: (1) It's not controlled by any government's central bank, (2) a global virtual currency facilitates global commercial transactions, (3) every block and Bitcoin transaction is recorded, and (4) though transactions are recorded, the payer and payee are anonymous, much like a cash transaction. (However, that anonymity has attracted charges that its chief use so far has been for illegal activities such as money laundering; in October 2013, the FBI shut down the Silk Road Bitcoin exchange and seized its assets.)

How does a Bitcoin payment work?

Just as a physical wallet holds paper money and change, a digital wallet stores the private software keys that are bitcoins. It makes or receives payments by communicating with the network of other Bitcoin wallets. Some merchants and services, especially those that focus on online or international sales, are starting to explore Bitcoin transactions. Physical bitcoins, which have a software key embedded in them, have begun to be minted. However, acceptance of bitcoins as payment is entirely at a seller's discretion; there is no guarantee you'll be able to spend them where you want to or get the value you expect. Also, as outlined below, problems at some exchanges have sometimes impeded access to Bitcoin funds.

Speculating in Bitcoin

Bitcoin's usage as a currency is a ripple compared to the tidal waves of investment speculation it has fueled. "Investing" in bitcoins simply means acquiring them through one of the methods outlined above. However, to say that Bitcoin as an investment is volatile is an understatement. Over Bitcoin's five-year history, its value has fluctuated wildly as both speculation and confidence in it as a currency have ebbed and surged. In April 2013, after rising from \$90 to \$260 over two weeks, a bitcoin's value plummeted to \$130 in just six hours;* since then, it has undergone multiple double-digit price swings.** Despite its lack of connection to any central bank, Bitcoin also has been vulnerable to actions by individual governments. After China cracked down on virtual currency transactions by financial institutions in 2013 and halted deposits of yuan at exchanges there, Bitcoin's worth in dollars was cut by more than half.**

That volatility has led to problems for people trying to make payments in bitcoins. It's hard to use a currency when you're not sure whether the amount in your virtual wallet is worth enough to buy a Range Rover or a tank of gas. Complicating the issue is the fact that the value can vary on different Bitcoin exchanges.

However, volatility is only one of the problems that have created havoc in the Bitcoin universe. The cybercurrency has been subject to cyberattacks that have halted trading briefly on several exchanges. At one point, one of the largest abruptly declared bankruptcy and announced that nearly half a billion dollars' worth of bitcoins held there had vanished. And federal seizure of the Silk Road exchange's assets created problems accessing those funds. Worse than not knowing how much your bitcoins will buy is not knowing whether they're available to buy anything at all.

The Wild West rides again

So far, regulatory oversight of Bitcoin has been spotty. The currency is not backed by either a government or any physical asset such as gold. Major exchanges are located around the world, and the decentralized nature of the system makes it more challenging for governmental regulators to get a handle on it. If you're considering exploring virtual currency, either for transactions or as a speculative investment, you should become more familiar with it rather than simply relying on this discussion. And because of the issues outlined above, you should be prepared for dramatic price swings and only use money that you aren't relying on for something else.



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Gregory A. Johnston, CFA, CFP,
QPFC, AIF
President & Chief Investment
Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jjcinvest.com
www.jjcinvest.com

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Should I co-sign my daughter's private student loan?

Today, many students turn to private lenders to help cover the cost of college.

Unfortunately, private student loans don't carry many of the same protections as federal student loans. As a result, you should be aware of the risks associated with acting as a co-signer for these types of loans.

According to the Consumer Financial Protection Bureau, approximately 90% of all private student loans were co-signed in 2011 (Source: Consumer Financial Protection Bureau, Mid Year Update on Student Loan Complaints, April 2014). Private lenders often require a co-signer if a borrower has little or no credit history. In addition, having a co-signer often allows a borrower to obtain a lower interest rate for a loan.

When co-signing any loan, you need to be aware that as co-signer, you are being asked to guarantee the loan. In other words, if your daughter doesn't make her loan payments, the lender can go after you for payment of the loan. Depending on the loan terms, a lender can even demand full payment of a loan from a co-signer if the borrower misses just one

payment. In addition, a lender can attempt to collect a loan that is due by using traditional debt collection methods, including wage garnishment.

Before you co-sign your daughter's loan, you'll want to consider whether you will be able to afford to pay her loan if she is unable to make her loan payments. In addition, you should find out how co-signing the loan will impact your current creditworthiness.

Finally, if you do end up co-signing your daughter's loan, you should also find out whether the loan document contains a provision regarding automatic defaults or "auto defaults." An "auto default" situation arises when the co-signer for a loan dies or declares bankruptcy and the lender demands the full amount of the loan to be paid back immediately by the borrower. If the loan does have an "auto default" clause, your daughter should be fully aware of the possible consequences and take steps once she has graduated and is in repayment to pursue a co-signer release for the loan.



I just learned that my credit- and debit-card information was part of a data breach. What should I do?

Now, more than ever, consumers are relying on the convenience of credit and debit cards to make everyday purchases, such as gas and groceries, and to make online purchases. With this convenience, however, comes the risk of having your account information compromised by a data breach.

In recent years, data breaches at major retailers have become commonplace across the United States. Currently, most retailers use the magnetic strips on the backs of credit and debit cards to access account information. Unfortunately, the account information that is held on these magnetic strips is also easily accessed by computer hackers.

While many U.S. banks and financial institutions are in the process of replacing the older magnetic strips with more sophisticated and secure embedded microchips, it will take time for both card issuers and retailers to get up to speed on these latest card security measures.

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review

your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

In most cases, your bank or credit-card company will automatically issue you a new card and card number. If not, request to have new cards and card numbers issued in your name. As an additional precaution, you should also change the PIN associated with the cards.

Whether you will be held liable for the unauthorized charges depends on whether the charges were made to your credit- or debit-card account and how quickly you report them.

For more information on your rights if you are affected by a data breach, visit the [Federal Trade Commission](#) and [Consumer Financial Protection Bureau](#) websites.



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Hiding Profits From The Tax Man

On July 14, the Foreign Account Tax Compliance Act became effective, and instantly virtually all foreign banks were required to keep track of, and report on, all assets held by U.S. citizens. Individuals who don't report income on those assets and pay taxes to Uncle Sam face draconian penalties in excess of the actual money in the account.

But hiding income abroad is nothing more than business as usual for large American companies. Some are now ducking through a corporate tax loophole by relocating their tax base overseas. These so-called "inversions" hit the mainstream news media when medical device manufacturer Medtronic bought rival Covidien, which is domiciled in Ireland, and then began stripping income out of the U.S., where the top corporate rate is 35%. The merged firm is paying taxes on most of its net income in Ireland, at a 12.5% rate. This will save the company between \$3.5 billion and \$4.2 billion in overall taxes.

Others are following suit. Wallgreens Co. is purchasing a Swiss company it partially owns, and pharmaceutical giant Pfizer Inc. openly pursued an inversion this year when it sought to purchase British drug maker AstraZeneca. Chicago-based pharmaceutical company AbbVie is buying Irish drug maker Shire, and two U.S.-based pharmaceuticals, Mylan Laboratories and Abbot Laboratories are planning to merge and reincorporate in the Netherlands. Overall, nearly 50 U.S. companies have used this tactic over the past decade. The net effect is to reduce U.S. tax revenues by an estimated \$17 billion over the next decade.

Still others are assigning their valuable patents to a subsidiary in a more tax-friendly locale. For example, Apple, Inc. now generates 30% of its total net profits through an affiliated firm based in Ireland, saving an estimated \$7.7 billion in U.S. taxes in 2011 alone. When the Wall Street Journal examined the books of 60 big U.S. companies, it found that they had shielded more than 40% of their annual profits from Uncle Sam.

An inversion works like this: A U.S. company buys or merges with a smaller company in the same business that happens to be located in a country where the corporate tax rate is lower than the maximum 35% federal rate here in the U.S.--plus, of course, state taxes. This covers a lot of territory. According to the latest update in Wikipedia, only the United Arab Emirates, Guyana, Japan and Cameroon assess higher corporate tax rates than the U.S.; their rates top out at 55%, 40%, 38% and 38.5% respectively.)

Next, the company is reincorporated, and its global headquarters is shifted to the foreign country. Operations continue exactly as they were before, which may mean that most of the sales and profits are still coming from the U.S. market. But the taxes are now paid at the lower rates of the overseas location.

The net result is to shift tax revenue to Ireland, the Netherlands, Switzerland and Canada, which offer a combination of low corporate tax rates and a territorial tax system, whereby income from foreign sources (like, for instance, the U.S.) isn't taxed at all.

How does this affect you? First of all, you will bear a slightly higher tax burden as the government seeks to recover lost revenues. In addition, companies that are holding assets offshore for tax reasons have effectively made that money unavailable to invest in the U.S., which could lower economic growth and cost jobs for the U.S. economy.

More directly, that offshore money is no longer available to pay dividends to shareholders like you and me, or to buy back shares, which raises the value of our stock holdings.

Finally, an inversion could actually trigger higher taxes for its shareholders.

How? When the company inverts or reincorporates abroad, all current shareholders are required to pay capital gains taxes on their holdings in that year, as they are issued new stock in the new company. So if you happen to own \$100,000 worth of Medtronic, and your shares originally cost you \$20,000, you would get a 1099 in the mail saying that you have \$80,000 in realized gains, subject to capital gains taxes immediately. If you had planned to hold those assets until death, and get a step-up in basis for your heirs, well, that strategy is preempted by the company's decision to invert. If you were holding the stock long-term to avoid annual taxation, or trying to shift tax obligations to next year, tough luck. You're paying taxes now, whether you like it or not.

Is there a way bring these assets back into the U.S. tax system? One obvious possibility is to lower our corporate tax rates below the rates of other countries. But there is no guarantee that those nations wouldn't lower their rates in turn, leading to a global race to the bottom, with the logical outcome that corporations would be essentially granted a 0% tax rate everywhere. And a lower corporate tax rate would, of course, mean higher individual tax rates, which is politically unlikely at the moment. Opponents would note that the share of federal revenues paid by corporations has already fallen from 32% in 1952 to just 8.9% today.

Another possibility is being explored in Congress. A recently proposed bill would require the foreign partner of any inversion tactic to be larger than the American merger partner; otherwise, the company is assumed, for tax purposes, to be domiciled in the U.S.



Money Market Changes

Most investors either have now or have had money invested in the cash-equivalent known as money market funds. Few have noticed that recent regulatory changes could expose some of the underlying volatility of these safe investments, and even affect whether you can get your money back when you need it.

Money market mutual funds typically invest in short-term IOUs known as commercial paper, often lending to governments or banks overnight and being repaid the next morning, or, in other cases, lending for a week or less. The interest rates are low, but these funds offer a reassuring advantage: any major drop in bond prices generally won't affect their value very much. Money funds have traditionally cemented this comforting feeling by effectively (but not explicitly) guaranteeing that a dollar invested will be at least a dollar returned. Even the money stuffed in your mattress looks riskier.

So why would regulators be concerned? Because not all money funds are as safe as they appear. In 2008, the \$62.5 billion Reserve Primary Fund "broke the buck" in industry parlance because of its heavy exposure to debt securities issued by Lehman Brothers, which was in the later stages of going broke. The fund eventually paid out 99.04 cents on the dollar, which (especially when compared with Lehman shares) is not exactly a catastrophic loss. But it showed the world that some of the assets that money market funds are investing in are not as rock solid as once believed.

Last month, the SEC issued long-awaited rules which require certain money market funds to report daily prices, which may fluctuate based on their underlying holdings, rather than the \$1 a share price that has held in the past. If a fund has 99.5% of its investments in short-term U.S. government assets, then it qualifies as a "government" money market fund, and daily prices do not have to be reported. But so-called "retail" funds, which lend to banks and certain corporations, will report a floating net asset value per share. And they will be required to assess a 1% or 2% redemption fee if their liquidity falls below certain thresholds.

At these lower thresholds, they will also be permitted--and in some cases required--to tell you and me and all their other shareholders that we'll have to wait up to 10 days to take our money out--which the SEC views as another way to promote fund stability and prevent runs on the bank.

The result of all this is that many investors will migrate to the "government" funds. Today, U.S. government debt is yielding just 0.013 percentage points less than the more traditional money markets, so you aren't being paid very much to take on the additional risk.



Teen Roth IRA

Your teenager is in the last month of his or her summer job, and chances are the wages have been collecting in a bank account. What should happen with that money when your child goes back to school?

One possibility is to start a custodial Roth Individual Retirement Account, owned by your teenager. All you need is a custodial account with an adult co-signing (if the teen is under 18). That money can grow for many decades and come out tax-free 30 or 50 years down the road.

How much are we talking about? If the money were to grow at an average rate of 5% a year (which, of course, is not guaranteed, but is in line with long-term averages for a balanced portfolio), then a \$5,000 contribution at age 19 would grow to \$52,006 by age 67. If your child waits until age 25 to invest the same amount in a Roth IRA, under the same return assumptions, the balance at age 67 would be just \$38,808.

If that contribution becomes a habit, the numbers become more interesting. A 19-year-old who maxes out on a \$5,500 Roth contribution every year until age 67, under the same rate of return assumptions, would see the account grow to \$1,164,985.

Suppose your teen decides to spend some of that money, or use it for college tuition? Parents and/or grandparents can match whatever contribution the child decides to make, to bring the total back up to \$5,500. The money in a Roth or other retirement account doesn't count toward the Fafsa financial aid form, so you don't have to worry about compromising the teen's financial aid eligibility. And having a hefty Roth IRA at retirement might address the possibility that Social Security won't be around, or as robust, when your kids eventually retire.