

TAX COMPLIANCE & PLANNING TRENDS

Ways to Save for Higher Education

Seems that just about every family in America struggles with the rising costs of college education, and how to pay for it without piling up a whole lot of debt. Here is a summary of college investment accounts worth discussing with our clients. Of course, starting to save when the children are young is the first piece of advice to share with them!

Section 529 Plans

These plans are a premier savings vehicle for high net worth individuals. They come in a few different flavors: pre-paid plans, standard savings plans and an Independent 529 Plan. Just by investing in an Independent 529, parents can receive a credit for a certain percentage of future costs at more than 200 participating schools. For example: a \$10,000 investment might earn 40% of future costs at college A, and 50% at college B.

There are no income limits, and the maximum lifetime contribution changes every year. For the 2007/08 school year, the maximum lifetime contribution amount is \$177,500 for each child. The money may be used for tuition and fees, not room and board, and only to fund undergraduate education. Also, the certificate must be held for three years before it can be cashed in. The investment in an Independent 529 is not deductible, but withdrawals will not be taxed. www.independent529plan.org.

Roth IRAs

Yes, these are retirement vehicles, but they can also be used to pay for college. Single filers who earn less than \$101,000 (\$159,000 for joint filers), can invest \$5000 a year in a Roth. (If over 50, up to \$6000 may be invested). The great thing is that original contributions can be withdrawn and used for any purpose without taxes or penalties. For example: a person invests \$3000 a year for 18 years, which grows at 8% a year. The account is now worth about \$201,000. He can withdrawal the \$90,000 in contributions tax-free and use it for college costs. The remaining \$111,000 can continue to grow for retirement. If those gains are withdrawn after 59 1/2, and the Roth has been owned for at least five years, they will not be taxed either.

Coverdale Education Savings Account

A single filer with an adjusted gross income below \$110,000 (\$220,000 for couples filing jointly), can invest up to \$2000 a year in a Coverdell for each child under 18. Anyone is eligible to contribute – parents, grandparents or friends. The contribution is not tax deductible, but withdrawals used to pay for any level of education will not be taxed.

Government Bonds

Series I Bonds and Series EE Bonds can be terrific options. Single tax filers with incomes below \$78,100 (\$124,000 for married couples filing jointly) can use proceeds from the se investment to pay for higher education costs tax-free. Go to treasurydirect.gov for more information.