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## Wealth Resources Network

*The Wealth Achievement Center of CNY*

### **EDUCATION FUNDING OVERVIEW**

Achieving your financial goals requires a coordinated, integrated approach. Peace of mind is achieved from knowing that you have planned well. The sooner you start education fund planning the better, since education costs are rising rapidly and aid sources are diminishing.

#### **PLAN TO PAY FOR LARGE EXPENSES**

As the cost of a college education continues to skyrocket - even outpacing the annual inflation rate - planning is critical if you want to have the required funds available. Whether you use the funds to finance a child's education or for some other purpose, there are a few ways you can reduce your family's tax bill.

Shifting income to a child to take advantage of the lower tax rates is one way to build your family's wealth. Special income tax rules apply to children under age 14, so you will need to plan carefully.

#### **WATCH OUT FOR THE "KIDDIE" TAX**

Children under age 18 pay tax at their parents' highest bracket on the portion of their unearned income (for example, interest and dividends) that exceeds \$1,700 (in 2007). There are still some effective ways around this potential stumbling block:

##### *Take Advantage of Lower Rates*

- Even if your child's income is not earned, the first \$850 is tax free, and the tax rate on the next \$850 of income is taxed at the child's rate.

##### *Choose Growth Instead of Income*

- You can avoid the Kiddie tax if your child invests in growth stocks or growth mutual funds that pay low dividends. As long as they are held until after the child turns 18, the capital gain is taxed at the child's rate, not yours.

##### *Consider Municipal Bonds*

- Interest on these securities is federally tax exempt to owners of any age. However, they generally do not offer an opportunity for growth with reasonable chance for earning more than the inflation rate. Ownership of individual bonds may require coupon clipping, and there is the inconvenience of timing sales or redemptions. Furthermore, bond income is relatively low.

### **PUT YOUR CHILD TO WORK**

If you own an unincorporated family business, hire your child. The salary is a deductible business expense, and if your child is under age 18, you do not have to pay FICA tax on the amount. The tax rate of the child at 10 or 15% is sure to be less than your own or the business's.