



## Wealth Resources Network

*The Wealth Achievement Center of CNY*

### EDUCATION FUNDING OVERVIEW

Achieving your financial goals requires a coordinated, integrated approach. Confidence 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 may be able to avoid the Kiddie tax if your child invests in growth stocks 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. Stock investing involves risk including loss of principal.

##### *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.

Subject to availability and change in price.

Subject to market and interest rate risk if sold prior to maturity.

Bond values will decline as interest rates rise.

Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

### 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.

*This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.*

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