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5 Ways That Can Help You Pay For Higher Education

The cost of sending children to college remains daunting, and annual increases in the price tag for higher education have outpaced the overall inflation rate for years. According to the College Board, yearly hikes in college costs during the past decade have averaged roughly 5%, while consumer prices in general have risen less than 3% a year.

But parents can take advantage of several college savings tools to help meet this steep challenge. Consider these five possibilities:

1. Section 529 plans: Section 529 plans, sponsored by U.S. states, encourage families to set aside funds for the future education expenses of beneficiaries. The contribution limit usually is at least $300,000. As long as certain requirements are met, your investment can grow without current taxes, and distributions made for qualifying college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—also are tax-free.

There are two main types of Section 529 plans: (1) prepaid tuition plans that let you prepay the cost of attending college years down the road at current rates and (2) college savings plans, whose assets are invested according to your preferences.

2. Custodial accounts: A traditional way of saving for college is to set up a custodial account under your state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). With these accounts you, or another custodian, manage the funds for the child's benefit until the child reaches the age of majority in the state. The advantages of Section 529 plans have tended to overshadow this approach in recent years.

There also are potential "kiddie tax" complications with custodial accounts. Under this rule, unearned income of a dependent child under age 24 may be taxed at the top tax rate of the child's parents to the extent that the child's income exceeds an annual threshold ($2,100 for 2017). This tax provision can eat into the amount being saved for college.

3. Minors' trusts: A minor's trust, authorized by Section 2503(c) of the tax code, is designed to provide funds for beneficiaries to use to pay for college. Like custodial accounts, minors' trusts have been around for a long time, but their popularity has waned because of the influx of Section 529 plans. Unlike custodial accounts, the trust can be set up to continue past the state's age of majority, as long as the beneficiaries don't exercise a limited right to withdraw funds.

With a minor's trust, trust income is taxed directly to the trust, so this arrangement avoids any kiddie tax problems. However, trust tax brackets

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Weigh All Factors For Bank Account Sign-Up Bonuses

Have you seen the ads promising a cash reward for opening a new bank account? You may be offered a bonus of $100 or more just for signing up. But be aware that strings are attached.

For starters, promotional giveaways, awards, and prizes are subject to federal and possibly state and local income tax. This applies to everything from bank deposit offers to lottery winnings to cash prizes that accompany Oscar and Grammy awards. (Recent legislation exempts Olympic medal winners from tax.) You'll receive a Form 1099-MISC and must report the income on your tax return.

In other words, if you get $100 from a bank and you're in the 25% tax bracket, you'll owe Uncle Sam $25 on your sign-up bonus.

Consider these other potential drawbacks:

- You may be charged fees relating to the account. For example, if your balance dips below a minimum amount you might be assessed a monthly fee that eventually could wipe out your one-time bonus.
- Some banks require direct deposit enrollment before you receive the bonus. If you don't comply within a specified time, you might not receive the bonus at all.
- The bonus may be rescinded if the account isn't kept open for a specified period of time.

Bottom line: Sign up for an offer only if it otherwise makes sense for you.

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

When To Disclaim An Inherited IRA

Should you ever pass up a chance to get more money? It depends. Suppose you're in line to inherit IRA assets. When it makes sense, you might use a "qualified disclaimer" so that the assets bypass you on the way to someone else.

A disclaimer is a legal document that lets you waive your right to receive money or property from an estate. If you execute a disclaimer, it's as if you never inherited the assets. Instead, they go directly to the next people in line to receive them. In the case of an IRA, the assets typically wind up with the account's contingent beneficiaries.

Why would you do this? There are two main reasons:

1. Assuming you don't need the money, you might prefer that the assets go directly to the younger generation, usually your own kids or grandkids. You were going to give the assets to them eventually anyway, right? A disclaimer shortens the process while lengthening the time over which the beneficiaries must take required minimum distributions (RMDs) from the account. RMDs are based on the life expectancies of the beneficiaries, so the younger they are, the longer the wealth can be preserved.

2. A disclaimer may reduce a family's overall tax liability. The RMDs from IRAs generally are taxed at ordinary income rates, which go as high as 39.6%. Younger children and grandchildren are likely to pay tax at a much lower rate.

For a disclaimer to work, it has to be an irrevocable, unqualified refusal to accept property, and it must meet the following requirements:

- It must be in writing with a declaration and signature of the person who is making the disclaimer.
- It must identify the property (or the partial interest in the property) that is being

Should You Fly Solo In Your Own 401(k) Plan?

Do you own and operate a small business? Although your equity in the company could help finance your retirement someday, it's also important to put money in a retirement account, just as you would if you worked for someone else. There are several kinds of tax-advantaged accounts for you to consider.

One plan that has been popular recently is the solo 401(k). In the past, high administrative fees often discouraged business owners from using these plans, but costs have come down. Plus, a solo 401(k) may offer distinct advantages.

The solo 401(k) also goes by various other names, including the solo-k, the uni-k, and the one-participant-k. It closely resembles a traditional 401(k) for larger businesses, but this one covers only a business owner with no employees (or just that person and his or her spouse). Solo 401(k)s generally have the same rules and requirements as other 401(k)s.

With a solo 401(k), a business owner wears two hats: one as employee and one as employer. Contributions can be made in both capacities.

1. As an employee, you can make elective deferrals equal to 100% of compensation (or "earned income" if you're self-employed), with an annual limit in 2017 of $18,000, or $24,000 if you're age 50 or older.

2. As an employer, you can contribute up to 25% of your compensation. (Special rules apply if you're self-employed.) For 2017, your total contributions—as employer and employee—to an account for you and your spouse can't exceed those specified limits and are capped at a maximum of $54,000.

To see how this might work, consider Ben, age 55, who earns $100,000 from his S corporation in 2017. As an employee, Ben chooses to defer the maximum $24,000 to his solo 401(k), and he adds an employer contribution of $25,000. That lets Ben make a total contribution of $49,000 for 2017. That's almost half his salary.

This unique one-two punch can enable a business owner to save a sizable amount for retirement even if contributions begin relatively late in life.

If a small business owner also is employed by a second company and participates in that company's 401(k) plan, the annual limit for that owner's deferrals is the total that goes to both plans. Thus, in our example above, Ben could defer a total of only $24,000 for the year, not $49,000.

What if you're self-employed? You'll have to make a special computation to figure the maximum amount of elective deferrals and nonelective contributions for yourself. When figuring the contributions, compensation is your "earned income," defined as net earnings from self-employment after deducting both:

- One-half of your self-employment tax and
- Contributions for yourself.

The IRS provides worksheets in Publication 560, Retirement Plans for Small Business, for figuring the allowable contribution rate and tax deduction for your 401(k) plan contributions.

But with a solo 401(k), you won't have to pass strict nondiscrimination testing requirements that can be the bane of existence for traditional 401(k) plans. A business owner with no other employees doesn't need to perform testing for the plan, because there are no other employees who could have received lesser benefits.

Finally, an owner with a solo 401(k) plan generally is required to file an annual report with the IRS if the plan has $250,000 or more in assets at the end of the year.

Of course, a solo 401(k) isn't the only tax-advantaged retirement plan option if you're self-employed or own a small business. Other types of plans—including the Simplified Employee Pension (SEP) and the Savings Incentive Match Plan for Employees (SIMPLE)—provide similar benefits within generous limits. But a solo 401(k) may offer extra flexibility by allowing both employee and employer contributions. ●

disclaimed.

- It must be delivered to the party or entity responsible for transferring the assets (for example, an IRA custodian or trustee).
- The disclaimer has to be executed less than nine months after the property was transferred (or within nine months of when the disclaiming person reaches age 21, if that's sooner).
- As a result of the disclaimer, the assets must pass to the new recipients without any direction from the person making the disclaimer. You can't decide to give the money to someone other than the legal beneficiaries next in line.

This process can be technically complicated, so you'll need to work with an attorney to provide the proper language for a disclaimer, which must take into account whatever is required under state law. Also, take great care in completing any beneficiary designation forms furnished by an institution. ●

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5 Ways That Can Help You Pay

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are narrow, and significant investment earnings may be taxed at the top rate of 39.6%.

4. Coverdell Education Savings Accounts: Coverdell Education Savings Accounts (CESAs) operate like IRAs for education expenses. Withdrawals used to pay qualifying expenses are tax-free to the beneficiaries. However, the contribution limits pale next to those of Section 529 plans. The maximum annual contribution limit for a beneficiary is just $2,000 and hasn't been increased in years.

Nevertheless, CESAs do offer some advantages. For one thing, unused assets can be rolled over tax-free for multiple beneficiaries. Furthermore, the funds in CESAs can pay for elementary and secondary schools as well as colleges. For this reason, such plans sometimes are used to supplement a Section 529 plan.

5. Financial aid: Finally, don't overlook the role that financial aid can play in helping pay for your child's education. Even relatively affluent families may qualify for some financial aid, so it makes sense to apply.

At the very least, students should fill out the Free Application for Federal Student Aid (FAFSA) provided by the federal government. To complement the FAFSA, some schools also may require the student to submit another form, the CSS Financial Aid PROFILE. And certain colleges and state agencies may request additional forms. Colleges use the information in these documents to calculate their financial aid offers.

Financial aid can come in several forms—as loans, grants, and scholarships. Generally, these benefits are tax-free to the students who receive them, although there are certain exceptions, particularly when financial aid involves work-study programs. ●

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