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THE NEST EGG

PROTECTING, PRESERVING AND BUILDING OUR CLIENTS' ASSETS

SMART WAYS TO SAVE FOR YOUR CHILD'S EDUCATION

If you're a parent, the start of a new school year may have you considering how much you're able to set aside for your child's college fund.

Average annual tuition in the U.S. is $38,185 for private college and $10,338 for public college.[1] And those numbers may rise by 2%–3% in the coming school year.[2] So, the sooner you start saving to support your child's future, the better.

Fortunately, investment accounts, such as 529 plans and Coverdell education savings accounts, are designed to help parents maximize their college savings efforts. In addition, there are several alternative approaches parents can take to put away money for their children's education. Here's a look at the different options you can choose from:

529 PLANS

Qualified tuition plans, or 529 plans, are tax-advantaged savings plans sponsored by government agencies or educational institutions. They are among the most popular college savings funds, allowing parents (or friends and relatives) to contribute to a child's future college tuition expenses.

There are no annual contribution limits to 529s; however, they are considered gifts for federal tax purposes, and tax-free individual gifts cap at $16,000 annually in 2022. Contributions are not deductible at the federal level. However, they do grow tax-free, and withdrawals are not taxed as long as they are used to pay for qualifying educational expenses, such as tuition, room and board, and meal plans. In most states, contributions to and disbursements from 529s are exempt from state income tax.

Plan options and tax benefits vary from state to state, and you can use most states' 529 plans, so shop around for the best options for you.

COVERDELL EDUCATION SAVINGS ACCOUNTS

Coverdell Education Savings Accounts (ESAs) offer similar advantages to 529 plans. Contributions are not tax-deductible, and there is an annual contribution limit of $2,000 per beneficiary. These funds grow tax-free and can be used to cover qualifying education expenses.

In some cases, Coverdell ESAs provide greater flexibility than 529s. While 529 plans can be used to cover $10,000 a year in K–12 tuition, Coverdell ESAs can be used to cover other K–12 expenses as well.

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However, there are limitations. Coverdell ESAs must be used by the time the beneficiary turns 30, or tax penalties may apply. They are also only available to families with a modified adjusted gross income of less than $220,000.

Alternative Options

You don't have to save for college expenses in a plan that was specifically designed for it. The following investment accounts are sometimes used to save for college expenses. Each option may impact eligibility for financial aid, so consult a financial aid advisor before investing.

Custodial accounts known as Uniform Gift to Minors Act and Uniform Transfers to Minors Act (UGMAs and UTMAs) have few restrictions on the types of assets they can hold, and funds are disbursed to the beneficiary when they reach the legal age of majority. These vehicles are often taxed at a lower rate because the beneficiary is a child. Since there are no spending restrictions on UGMAs or UTMAs, the beneficiary is not bound to spend the money on education expenses.

Parents might also opt to invest college funds in a Roth IRA. Typically used as a retirement fund, a Roth IRA can also be used as an investment vehicle for college as well. Withdrawals made to pay for qualified education expenses are exempt from early withdrawal penalties.

Some families may opt to invest college funds in a permanent life insurance plan. With this plan, a portion of each premium is funneled into a tax-deferred savings account. Funds can be accessed at any time and spent without restrictions, offering beneficiaries a great deal of flexibility. However, this option can come with costly fees and other risks, and may not be appropriate for every investor.

Your financial advisor can help you choose the most effective option for your family. Start saving for your child's college as soon as you can to take advantage of the power of compounding returns and continue to make regular contributions as your child grows.

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Why did the scarecrow win a Nobel Prize?
He was outstanding in his field

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2 Forbes, "Tuition Prices Will Jump as Colleges Grapple With Inflation, Demand For Higher Wages." https://www.forbes.com/sites/wendyguzman/2022/07/14/tuition-prices-will-jump-as-colleges-grapple-with-inflation-demand-for-higher-wages/?sh=1e72dc6a6512

When Donating to Charity From an IRA, Beware of These Tax Traps

Using your individual retirement account to give to charity is a good thing. But tax snafus can ruin the good intentions. Traditional IRAs have long been used to make qualified charitable distributions. Eligible individuals can donate as much as $100,000 a year. Such gifts can make up part or all of the donor's required minimum distribution, or RMD. And amounts donated to qualified charities are excluded from the donor's taxable income for that year.

For example, if your RMD this year is $10,000 and you are charitably inclined, you can give $5,000 of this amount to your favorite qualified charity. Instead of having to report a $10,000 distribution as income to the IRS, only $5,000 will be taxed according to your income bracket.

However, there are some little-known nuances with qualified charitable distributions to be aware of.

"So many people make mistakes with the rules," says Andy Ives, an IRA analyst at Ed Slott & Co., a tax consulting firm in Rockville Centre, N.Y. "If you mess it up, you're going to have a taxable event and money added to your income for the year."

No Quid Pro Quo

One mistake is making a gift to a donor-advised fund, private foundation or charitable-gift annuity. To obtain the tax benefit, there must be a full release of the funds directly to a charity.

Another mistake is when the donor accepts something in return for their gift. It's obvious that you can't receive a college scholarship for your grandchild as a quid pro quo. But you can't even accept a tote bag, coffee mug or T-shirt as a token "thank you."

Nor can you take a deduction for such a gift. Since you're already reducing your taxable income by subtracting the gift from your required minimum distribution, the IRS would consider the additional deduction to be "double dipping."

Qualified charitable distributions do offer an additional tax benefit, however, for those who don't itemize. With the standard deduction now at $12,950 for single people and $25,900 for married couples filing jointly, making charitable donations from your retirement account

Why shouldn't you tell a secret in a cornfield?
Because the corn has ears.

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allows you in effect to reduce your taxable income by more than the standard deduction and still avoid the hassle of itemizing.

Although the Secure Act raised to 72 the age at which RMDs begin, the eligible age for making qualified charitable distributions still starts at age 70½ (and you must actually be 70½, not turning 70½ later that year). So if you are charitably disposed and 70½, you can make the gift even before the RMD is to begin.

Regardless of when you make the qualified charitable distribution, it does more than just reduce your adjusted gross income and possibly prevent you from entering a higher tax bracket, which could be as much as 37%. It also may mitigate "stealth taxes" based on adjusted gross income, such as Medicare Part B and Part D surcharges.

You can't make a qualified charitable distribution from a workplace plan, such as a 401(k). Since the tax has already been paid, you also can't do it from a Roth IRA (except in rare circumstances) or from an active SEP or Simple IRA. A SEP or Simple IRA must be inactive to qualify, meaning no money was contributed to the SEP or Simple IRA that year.
If you make qualified distributions to more than one charity in a year, you must have a separate written acknowledgment showing the date and amount of the contribution from each organization as documentation to substantiate the gift.

The custodian of your IRA—a bank, brokerage firm or mutual-fund company—will typically have a charitable-distribution form or process that you must follow. Custodians usually send the money directly to the charity. However, checks can also be made payable to the charity and sent to the account owner for delivery to the organization.

LET THE IRS KNOW

When you receive a Form 1099-R from the custodian showing the distribution, there is no special coding indicating that it was a qualified charitable distribution. Therefore, it is your responsibility to inform the IRS about it on your federal tax return.

Similar to how a rollover is reported on Form 1040, you would list the full distribution on line 4a. On line 4b, where you report your taxable IRA distributions, if the total amount was used for qualified charitable distributions, you would enter zero; if only part was used for charity, you would enter the remainder as the taxable amount. Next to line 4b or in a dropdown box if filing electronically, you would then label the amount of the qualified charitable distributions.

Qualified charitable giving continues to be a valuable tax-saving strategy for many people. To qualify for the benefit, though, the distribution must be completed by Dec. 31 of the calendar year in which it was made (no extensions permitted). It's advisable to make the donation as early in the year as possible, since custodians are frequently busy processing end-of-year requests in December.

By Leonard Sloane—Mr. Sloane is a writer in New York. reports@wsj.com

1. What size is largest pumpkin grown in the USA?
   A. 1810 lbs B. 2520 lbs C. 2702 lbs
2. How many apple varieties are grown in the USA?
   A. 750 B. 2,500 C. 7,500
3. When is peak color season in northern Vermont? How about the Smoky Mountains?
4. Which state grows the most apples?
   A. Washington B. New York C. Michigan D. Pennsylvania
5. The closest full moon to the autumn equinox is called a ______________?
6. What is the largest pumpkin pie ever made?
   A. 405 lbs and 7 ft in diameter
   B. 1,252 lbs and 9 ft diameter
   C. 2,020 lbs and 12 ft diameter
7. Pumpkins are made up of how much water?
   A. 30% B. 60% C. 90%
8. Which Disney princess caught a ride to the ball in a pumpkin?
   A. Snow White B. Cinderella C. Princess Aurora
9. How many apples does it take to make one gallon of Apple Cider?
   A. 25-30 B. 35-40 C. 45-50
10. What nut is still hand harvested in the Ozarks and is processed via local hullers and sent to Stockton, MO?
    A. Black Walnuts B. Pecans C. Hazelnuts

ANSWERS:

1. B. 2,520—Grown in Wisconsin in 2021; Largest in World was grown in Italy, which is C. 2,702 lbs
2. B. 2,500 — worldwide answer is C. 7,500
3. In Northern Vermont, last 2 weeks of September. In Smoky Mountains—end October to beginning of November
4. Top 4 apple growers are listed in order—With Washington leading
5. Harvest Moon
6. In New Berman, OH—answer is C. 2,020 lbs
7. C. 90%
8. B. Cinderella
9. B. 35-40
10. A. Black Walnuts (Hammons Black Walnut Company)

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