October 2011 Monthly Newsletter

Tax filing reminders

- October 3 – Generally, the deadline for businesses to adopt a SIMPLE retirement plan for 2011.
- October 17 – Filing deadline for 2010 individual tax returns on automatic six-month extension of the April 18 deadline.
- October 17 – If you converted a regular IRA to a Roth in 2010 and now want to switch back to a regular IRA, you have until October 17, 2011, to do so without penalty.

Consider four tax-smart ways to save for college

The cost of sending a child to college is daunting. According to the latest figures from the independent College Board, the total average cost for the 2010/2011 academic year – including tuition and fees, room and board, books and supplies, transportation and other sundries – for in-state students at four-year public colleges was $20,339. For out-of-state students, the average cost jumped to $32,329. The cost at four-year private colleges averaged $40,476. And costs are expected to keep rising.

Nevertheless, you can lighten the financial burden of putting your children through school by taking advantage of certain tax-favored vehicles. These techniques are generally available to grandparents as well as parents. Here are four prime examples.

1. Section 529 plans: There are two main types of Section 529 plans. With a “college savings plan,” you can make generous contributions to a special account established for a designated beneficiary. Every state offers its own versions of these plans. With the second type, you may arrange to pay future tuition costs in today’s dollars through a “prepaid tuition plan.”

Funds contributed to a Section 529 plan may accumulate without any current tax, and distributions are tax-free if the money is used to pay for qualified higher education expenses. When an older beneficiary (such as your first-born child or grandchild) graduates, you can transfer the remaining balance in the account to a younger beneficiary.

2. Custodial accounts: A custodial account established under controlling state law is a more traditional way to save for college. Typically, you create a bank account in a child’s name and manage the assets until he or she reaches the state-mandated age. The income is taxed at the child’s tax rate, which is usually lower than your rate. Caveat: Under the “kiddie tax,” unearned

income above an annual threshold ($1,900 for 2011) received by a child under age 19, or a full-time student under age 24, is generally taxed at the top marginal tax rate of the parents.

3. Section 2503(c) trust: This type of trust (sometimes called a “minor’s trust”) avoids kiddie tax problems because the income it generates is taxed directly to the trust. Furthermore, unlike a custodial account, you can set up the trust to continue past the state age of majority, as long the child doesn’t exercise a limited right to withdraw the funds.

The trust must comply with all the legal requirements.

4. Coverdell ESAs: The Coverdell Education Savings Account (ESA), initially dubbed the “Education IRA,” is essentially an IRA used to pay for education expenses. This type of account may be used for elementary and secondary school expenses as well as college. However, the annual contribution limit for Coverdell ESAs is only $2,000, as opposed to Section 529 limits usually reaching six figures. Also, eligibility is phased out for high-income taxpayers.

Contact us if you would like to determine the best approach for your situation.

Charitable contributions: More than just cash might be deductible

Many taxpayers give much more than just cash to their favorite charity. Many also provide their time, travel, meals, and other “out of pocket” expenses in order to assist the charity in doing good work. And while you can’t take a charitable deduction for your time, you are allowed to deduct other expenses incurred in support of a charity, such as vet bills for your local humane society, or wood and nails for a “habitat” charity.

Let’s examine your house of worship. It’s possible for members to deduct evangelism travel expenses, even if the charity (a church in this example) never initiated, controlled, supervised, or assisted with the trips. The church fostered missionary work in general. Before the trip, the church provided the taxpayers with letters of commendation serving as introductions to other interfaith groups during the trip. And after the trip, the charity publicized the member’s efforts to the other congregations. This allowed the taxpayers to deduct mileage at the prescribed IRS rate, air fare, lodging, and meals while on their missionary trip.

Consider the potential deductions for those taxpayers involved as board members to a charity, or simply significantly involved. In a recent decision, the Tax Court noted “control” by the charity is only one of the factors to be considered. You don’t have to necessarily be controlled or directed by the charity to make your deductions stand up. But there should be a strong affiliation with the charity, and the taxpayer must be accountable to the charity.

There are recordkeeping requirements. Noncash contributions greater than $250 must be acknowledged by the charity. The taxpayer will likely have to request this from the charity with a simple form, one which the charity will to be happy to complete in order to secure your deduction and advance the mission of the charity.

Contact us soon for a year-end tax review

An important part of our service to you is to help identify actions you can take before year-end to minimize your 2011 income tax bill. Accelerating or delaying income and deductions, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. There are also tax credits that require careful planning or they may be lost. If you'd like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end planning review.