

Saving for College

Alyssa Lebovic, partner
Keller & Lebovic, CPAs
www.kellerandlebovic.com

- Tuition inflation in recent years has been twice the general inflation rate. Not just tuition – Room & Board costs are going up faster than inflation, too
 - So if you do nothing, you get further & further behind - Every little bit you do makes a difference. It's never too early or too late!
 - Even \$200/mo will start to add up. In time you'll increase that, but the earlier you start, those small amounts will have TIME to grow.
 - The best thing you can do for your kids is to pay off your own student debt and other non-deductible debt like credit cards. Their high int rates effectively give you a guaranteed high return on your money WITH NO RISK.
 - Maximize your retirement savings – You can't borrow for retirement, you can always borrow for college and then help them pay it off after college.
 - 529s – Grow tax free as long as spent on Tuition/Room/Board and the owner still maintains control but for tax free to be meaningful you would need to be faced with a tax bill to begin with
 - If a NYS resident, each taxpayer can get up to a \$5,000 deduction/yr for contributing to the NY 529.
 - Gifting rules – \$14,000/year. 529s only way to prefund gifting, just file a gift tax return to spread gift over 5 years. In addition – direct payments of medical or education expenses – great for Estate planning
 - In NY, I recommend \$40,000 – \$8,000/year for 5 years. Then still room to do \$5,000/yr for NY deduction in the future years and \$1,000 of incidental gifting for birthdays/holidays/milestone events.
 - Kiddie tax – income over \$2,100 – start paying tax at parents' rate, but 1st \$1,050 tax free, next \$1,050 their low bracket of 10% or 0%
 - Should have some funds in your kid's names/SS#'s – Prefund your kids HWIS Tuition or summer camp, etc. See attached article.
 - Coverdell IRAs - \$2000/year per child from ALL relatives combined - Can fund K-12 with it. If your income too high (\$110K Single, \$220K Joint) – gift to relative & let them do it. Do this in addition to 529s
 - Pre-tax or tax advantaged ways to pay for HWIS tuition – If both parents work, can use dependent care \$5,000 if offered by employer OR dependent care credit of \$600/kid up to 2 kids, pay with Coverdell IRA money, have Grandparents pay towards tuition directly and won't count towards the annual \$14,000 gifting.
- SOMETHING IS BETTER THAN NOTHING – DON'T WAIT!