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Think it's too late? Do you make too much to reduce your college bill? Think again.

Late-stage college funding strategies that may cut taxes and costs

By Don Patrick

When it comes to college planning, many people know that they should invest in a 529 Plan or open a Coverdell Education Savings Account. Thanks to increased public awareness, those planning strategies are almost no-brainers. But upper-income and high net worth consumers – who may automatically assume that it's too late to do anything other than fork over full tuition (even at the risk of jeopardizing their own retirement) – take note: Several little-known strategies may provide tax and tuition relief.

Making a good living (or having assets) and cutting hefty tuition bills are not mutually exclusive. There are several little-known tax codes that can be used to reduce college expenses, even for high net worth consumers. One way to help families save money is to create 'tax scholarships.' This perfectly legal tactic requires shifting income from parents, grandparents or another caring adult to the college-bound student. If the adult owns a business, he or she can employ the young person and pay them market rate. Because the student's tax bracket is typically much lower than the adult's, significant tax savings can occur. Of course, the student must perform legitimate work for reasonable compensation.

For example: A senior in high school begins working in the family business as a paralegal. Her tax rate is 15%; with a salary of \$30,000 a year, her tax liability would be \$4500. By shifting the \$30,000 income to his daughter, for legitimate work, he is not only teaching her financial responsibility and solid work ethics but, assuming he is in the 35% tax bracket, has just saved the family \$6000 per year for 5 years – a student's senior year in high school plus four years of college. If the daughter continued to work virtually from campus after leaving home for college, the tax savings would be approximately \$30,000.

There are five tips every affluent consumer should consider to reduce college costs and needless taxes:

1. MAYBE YOU CAN QUALIFY FOR FINANCIAL AID

Upper-middle-income families and the affluent may erroneously assume that their student won't qualify for financial aid. That is not always the case. There are two types of financial aid offered by

colleges and universities. The first type, need-based aid, takes the parents' and student's income and assets into account; as a result, many people are ruled out if their income and net worth exceeds the typically-low thresholds. Merit-based financial aid is often overlooked. This type of aid is based on academic achievements and has nothing to do with financial need. If a college wants to attract your student, no matter what your income or assets, you may very well be offered a tuition discount – sometimes 50% or even more off the normal price tag – to entice her to attend the institution. The important thing to remember is that even if you know you won't qualify for need-based financial assistance, you should still apply for merit-based financial aid.

2. INCOME SHIFTING CAN DELIVER SAVINGS

Using education tax credits, the standard deduction and the personal exemption, a child can offset a lot of income. Income-shifting strategies take advantage of the Tax Increase Prevention and Reconciliation Act, which increased the age for income-shifting strategies from 14 to 18. With the age shifting to 18, there are more opportunities than in the past when the cut off age was 14. Eighteen is typically when most children begin college and, happily, the college years are an ideal time to transfer income from parent to child. Income-shifting strategies during college years can take full advantage of the education tax credit, which is 15% up to \$36,000 after age 18.

3. CHARITABLE REMAINDER TRUSTS CAN BENEFIT BOTH THE GIVER AND RECEIVER

Charitable remainder trusts are excellent vehicles to help pay for a child or grandchild's college education. This gifting strategy can be used to pay for college with pre-tax dollars. For example, if a person owns a low-yielding asset, such as a stock or a piece of land, the trust can be set up to allow the receipt of a large tax deduction in the year the asset was gifted to the trust. The asset would then be sold, tax-free, and the assets could then be reinvested to produce a higher amount of income to pay for college. The income generated would be paid to the parent or grandparent of the child for a fixed period, determined when the trust is established. The parent or grandparent would then gift to the child and take advantage of the gift tax exclusion. At the end of the fix number of years, the designated charity would receive the remaining amount in the trust. This is a great strategy, especially for grandparents because of its ability to save both income taxes and remove assets from their estate as an estate planning tool.

4. LATE STAGE PLANNING PAYS OFF

If parents didn't invest early in a Section 529 Plan or open a Coverdell Education Account, it's game over. Right? Wrong! A family can reposition its assets, lower the expected family contribution to education costs and qualify a child for financial aid. Although the ideal time to start saving for college is when children and grandchildren are young, there are many late-stage planning vehicles that can dramatically lower college expenses. Once a child or grandchild reaches high school, people still have time to develop a multi-year plan to efficiently pay for college. Planning should take into account college admission, cash flow, financial aid, tax and other financial strategies.

5. DON'T SACRIFICE YOUR RETIREMENT

College planning should not take precedence over retirement planning. Both retirement and sending a child or grandchild to college should be top priorities. When working with a financial professional, be leery of one who puts one over the other. Your retirement is just as important as paying for college. While no one wants to saddle their kids with needless debt, they can always take out and repay a loan for college expenses. You, on the other hand, may not be able to qualify for loans and credit as easily

during your retirement years. The bottom line is: don't raid your retirement savings account to help your kids through college. There are other ways to off-set costs and help them get a quality education.

About Don Patrick and Integrated Financial Group

Don Patrick, Managing Director of Integrated Financial Group in Atlanta, Georgia, has been serving clients as a financial advisor for over 26 years. Patrick earned his MBA from the University of Southern California. Undergraduate studies were completed at Loyola University Los Angeles in the areas of finance and economics. He served as a pilot in the U.S. Air Force, graduating first in his class. He is also a member of the Financial Planning Association, the nation's largest organization of professionals dedicated to championing the financial planning process. He has completed additional studies and passed a rigorous certification examination and is authorized to use the CFP[®] mark of distinction. Integrated Financial Group, an independent financial planning consortium of advisors, delivers practical, effective financial solutions aimed at addressing the long-term financial planning needs of their clients.

For five years listeners in south Florida relied on Patrick to deliver sound, accurate financial advice as co-host of a radio talk program. He taught financial planning at Georgia State, North Metro Technical College and Gwinnett Technical College. Listed in Who's Who of Investment Management Consultants, Patrick recently authored a book titled *Keep Your Nest Egg from Cracking – What You Need to Know*.

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