



## PLAN FOR TUITION BEFORE YEAR-END

Last May Congress passed a tougher “Kiddie Tax” measure that taxes investment income of children aged 18 and full time students aged 19-23. In 2008, investment income in excess of \$1,700 will be taxed at their parent’s rate. The current law taxes children’s investment income in the same way but the age is only through 17 years old.

This provides an income tax planning opportunity for parents of 18 year-olds and/or college students aged 19-23 before the end of 2007.

Many parents have college accounts in their child’s name that contain appreciated stock. In addition some children have accounts through gifts and inheritances. If the intention is to use those investments to fund college expenses in the next few years, parents might want to consider selling some or all of the appreciated securities before the end of 2007 to take advantage of the student’s lower capital gains rate (5% capital gains rate for taxpayers in the 10% or 15% bracket).

In addition, parents having similar appreciated securities that will be used to fund college in the coming years, could gift such stock to their 18-23 year old children so the stock could be sold in 2007 at the lower capital gains tax rate. (Each parent can gift up to \$12,000 per year to each child without triggering gift tax.)

Many parents have started 529 college savings programs for their children and usually the funds are not sufficient to cover the entire cost of 4 years of college or grad school. Utilizing this tax planning strategy in 2007 could help postpone the use of the 529 funds.

The new law is effective starting in 2008. It will apply when the child meets these criteria:



- ◆ Age 18 or is a full-time student aged 19-23, before the close of the tax year
- ◆ Does not have earned income for the tax year that equals more than half of his support
- ◆ Has more than \$1,700 of unearned income (investment income)
- ◆ Has at least one living parent at the close of the tax year
- ◆ Does not file a joint return for the tax year.

Your Vantage Relationship Manager would be happy to answer any questions on this matter and discuss ways you can take advantage of this opportunity.

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