GRANITE FINANCIAL

NEWS

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Think it's too late? Make too much to reduce college bills? Think again.

Financial advisor offers late-stage college funding strategies that may cut taxes and costs

St. Cloud, MN (September 6, 2007) – When it comes to college planning, many people know that they should invest in a 529 Plan or open a Coverdell Education Savings Account. But for those who 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) there are several little-known strategies that may provide tax and tuition relief.

According to Patricia Hinds, CERTIFIED FINANCIAL PLANNER™ professional and founder of Granite Financial in St. Cloud, MN, making a good living 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," says Hinds. "One of my favorite ways 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

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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."

According to Hinds, 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 assume that their student won't qualify for financial aid. That's not always the case. There are two types of financial aid offered by colleges and universities: need-based and merit based. "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 thresholds. Merit-based financial aid is based on academic achievements alone. "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 – to entice her to attend the institution," says Hinds. "Remember 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

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. "This age shift allows for more opportunities than in the past," says Hinds. "Eighteen is typically when most children begin college and, these 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," says Hinds. "This gifting strategy can be used to pay for college with pre-tax dollars."

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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 for a fixed period. The parent or grandparent would then gift to the child and take advantage of the gift tax exclusion. “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 for a child’s college education, it’s game over. Right? Wrong! According to Hinds 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,” says Hinds, “there are many late-stage planning vehicles that can dramatically lower college expenses.” According to Hinds once a child or grandchild reaches high school, people still have time to develop a multi-year plan to efficiently pay for college. Hinds’ planning takes 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 to college should be top priorities,” says Hinds. “When working with a financial professional, be leery of one who puts one over the other. While no one wants to saddle their kids with debt, they can always take out and repay a loan for college expenses. 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.”

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