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## What You Need to Know About Section 529 Plans

Answers to several common questions



How will you ever save enough money to pay for your children's college educations? There are no absolute guarantees, but Section 529 plans may help you set aside funds, up to generous limits. Here are the answers to several common questions on this subject.

Q. What exactly is a Section 529 plan?

A. Named after the tax code section authorizing their use, 529 plans are educational savings plans, generally operated by individual states, that encourage families to build up funds for the future education of the younger generation. If certain requirements are met, there is no tax due on the accumulation of earnings and no tax due when funds are paid out for qualified distributions.

There are two main types of Section 529 plans: the prepaid tuition plan and the college savings plan.

Q. How does a prepaid tuition plan work?

A. Essentially, the plan is guaranteed to keep pace with the rising cost of college tuition. For instance, say it currently costs \$10,000 annually to send a child to a state university. You would pay \$10,000 now to buy shares for a youngster. When the child is ready for college, your shares can pay for an entire year of tuition, no matter what it costs at that point.

This type of plan is often attractive to parents because it offers peace of mind. There is no risk of loss of principal, and the investment is usually guaranteed by the state.

Q. How does a college savings plan work?

A. Unlike with a prepaid tuition plan, there is no guaranteed lock on future tuition costs under a college savings plan. In fact, the savings may not be enough to cover all the costs. But you have a bigger potential upside as well, since it's possible to generate a better return with this type of plan. (Of course, there are no guarantees.)

Usually, the plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school. For example, the plan may provide more aggressive investments in the early years and switch over to more conservative investments as college approaches. Most college savings plans also offer a wide variety of risk-based asset allocation portfolios that are managed by professionals.

Q. What are the restrictions on contributions?

A. Anyone can contribute to a Section 529 plan on behalf of a named beneficiary.

Each state is responsible for setting its own limits on the amount of contributions allowed to a college savings plan. Check the limits in the applicable state for your situation.

Note: In the event that a child decides not to attend college, or attends school in another state, you may be able to transfer funds to another plan or "roll over" funds for the benefit of a successor beneficiary (e.g., a younger child).

*Reminder: A Section 529 plan is suitable for many parents, but it is not for everyone. Investigate the options carefully.*

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## Roundup of "Dirty Dozen" Tax Scams

IRS updates its list for 2017

The IRS recently released its annual list of "Dirty Dozen" tax scams to watch out for in 2017. Here is a rundown gleaned from the IRS' summary.

1. Phishing: Be on guard against fake e-mails or websites looking to steal personal information. Do not click on e-mails claiming to come from the IRS.
2. Telephone scams: Phone calls from criminals impersonating IRS agents are another problem. You might be threatened with police arrest, deportation or license revocation, among other things.
3. Identity theft: The IRS continues to aggressively pursue the criminals who file fraudulent returns using other people's Social Security numbers. Though progress is being made, you must remain cautious.
4. Return preparer fraud: The vast majority of tax professionals provide honest, high-quality service. But some dishonest preparers perpetrate refund fraud, identity theft and other scams that hurt taxpayers.
5. Fake charities: Be wary of charities with names similar to familiar or nationally known organizations. Take a few extra minutes to ensure that your hard-earned money goes to legitimate and currently eligible charities.
6. Inflated refund claims: Watch out for people promising inflated refunds. They might ask you to sign a blank return, promise a big refund before checking records or charge fees based on a percentage of the refund. Fraudsters use fliers, advertisements, phony storefronts and word-of-mouth via community groups.
7. Excessive claims for business credits: Do not improperly claim the fuel tax credit, a tax benefit generally not available to most taxpayers. Also, avoid misuse of the research credit.
8. Falsely padding deductions on returns: Avoid the temptation to falsely inflate deductions or expenses on your returns to pay less than what is owed or to potentially receive larger refunds. Think twice before overstating deductions such as charitable contributions and business expenses or improperly claiming credits.
9. Falsifying income to claim credits: Do not invent income to erroneously qualify for tax credits. Taxpayers are sometimes talked into doing this by con artists. It can lead to large bills to pay back taxes, interest and penalties—even criminal prosecution.
10. Abusive tax shelters: Be on the lookout for people peddling tax shelters that sound too good to be true. When in doubt, seek an independent opinion regarding complex products.
11. Frivolous tax arguments: Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims, even though these cases have been repeatedly thrown out of court. No one has the right to disobey the law or disregard the responsibility to pay taxes.
12. Offshore tax avoidance: The IRS has been cracking down on offshore tax cheats and the financial organizations that help them. You are best served by voluntarily catching up on your tax-filing responsibilities. The Offshore Voluntary Disclosure

Program (OVDP) can help.

*Continue to use common sense in addressing these matters. Do not be victimized by one of the "Dirty Dozen."*

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## Ten Moves Forward for a Second Marriage

Consider estate-planning implications

If you are getting remarried, you may face some special estate-planning challenges, especially if you have children from a prior marriage. The following 10 tips may help.

1. Talk with one another. Do not start off a marriage by hiding financial interests or concerns from one another. For instance, if you intend to pass assets directly to your children, let your fiancé(e) know. It is best to get these matters out in the open.
2. Protect your interests. When appropriate, you might have your fiancé(e) sign a prenuptial agreement. Essentially, this safeguards some of your personal assets in the event of a marital dissolution. Prenups no longer have the same stigma they once had in the past.
3. Learn from history. If you were divorced or had an unhappy first marriage, determine "what went wrong." Try to avoid making the same sort of mistakes this time around. Of course, you may face certain legal or contractual restrictions, so take that into account.
4. Do an inventory. Figure out what you own and what those assets are worth. This includes investments such as stocks, bonds, mutual funds and real estate, as well as IRA and qualified retirement plan amounts. Do not forget about life insurance policies.
5. Divide and share. Decide whether and how much you want to commingle assets. Remember, state laws can have an impact. For instance, if you reside in a community property state, joint ownership is presumed by law, while other states are guided by equitable distribution principles.
6. Honor the titles. The way property is titled is more than window dressing. For instance, if you and your spouse own property as joint tenants with rights of survivorship (JTWROS), it will pass directly to your spouse. But if you own assets as a sole owner, they will generally be distributed according to your will.
7. Revise your will. Speaking of your will, it will likely need to be updated, at the very least, or replaced by a new one. Be clear about your beneficiary designations. Note: Designations previously made for IRAs, qualified plans and insurance policies will supersede your will if not changed.
8. Take taxes into account. Typically, your estate plan and accompanying documents can maximize tax provisions, such as the unlimited marital deduction and estate-tax exemption (\$5.49 million in 2017). Note that the exemption is "portable" between spousal estates.
9. Establish a trust. In conjunction with updating your will, you may set up one or more trusts. Not only can a trust provide tax advantages but it may also effectively allow you to limit access to assets that will be passed to your heirs. There are numerous variations, so explore the options.
10. Rely on professional advisers. Fortunately, you do not have to go it alone. Set up an estate-planning "team" for this purpose.

*Although every situation differs, a team will typically consist of a CPA, an attorney and a financial planner. These professionals can provide the expertise you need.*

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## Don't Forget About This Health Care Law

COBRA may provide continued coverage

The Affordable Care Act (ACA)—aka Obamacare—has been making the headlines, but another significant federal health care law can have a big difference. Under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986, an employer with a group health insurance plan may be required to offer continued coverage to a departing employee.

Background: COBRA applies to private employers that had 20 or more employees in the preceding calendar year. In addition, some states have enacted comparable laws for employers with fewer than 20 employees.

Generally, COBRA coverage is also extended to a covered employee's spouse, dependent children and even an ex-spouse if group coverage would be lost due to a qualifying event. To be eligible, the covered employee must have been enrolled in the employer's health plan when he or she worked there, and the plan must still be active.

Although employers are required to notify employees of their COBRA rights and to offer continued coverage, the health insurance cost may be shifted to the departing employee (plus a 2% administrative fee). Continuation of health insurance coverage may be required for one of the following events:

- Termination of the employee's employment for any reason other than gross misconduct;
- Reduction in the number of hours of employment;
- Eligibility of the covered employee for Medicare;
- Divorce or legal separation of the spouse from the covered employee;
- Death of the covered employee; or
- Loss of dependent child status under the plan.

COBRA requires that continuation coverage be extended for as long as 18 or 36 months. The length of time depends on the type of qualifying event creating the COBRA rights. Note: A plan may provide for a period of coverage longer than the maximum period required by law.

When the qualifying event is the covered employee's termination of employment or a reduction in hours of employment, the employee is entitled to 18 months of coverage. In other cases, including the time an employee becomes eligible for Medicare, coverage for a spouse and dependents can last for 36 months.

Finally, if a qualified beneficiary is disabled and meets certain other requirements, that beneficiary may be entitled to continuation coverage for 29 months.

*As stated above, employers must meet certain notification requirements under COBRA. Employers should coordinate these activities with assistance from their professional business advisers.*

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## Facts and Figures

Timely points of particular interest

Payroll Tax Snafu—A taxpayer owned an S corporation that failed to pay payroll taxes and then went out of business. After the taxpayer had another entity pay the payroll tax penalty on its behalf, the S corporation deducted the payment as a business expense. But the Tax Court denied the deduction. Reason: A defunct company cannot deduct this expense, and besides, the payroll tax penalty is not deductible.

Business Expansion—Is your small business dangerously linked to just one product or service? It may make sense to diversify. Some ideas are (1) sell complementary products or services, (2) teach adult education or other classes, (3) import or

export goods and (4) become a paid speaker or columnist. This may provide multiple streams of income and can offer some protection against a severe downturn.

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## Tax Mileage for Charitable Travel

Do you travel in your vehicle on behalf of a charity? In lieu of keeping track of actual expenses, you can use the standard mileage rate of 14 cents per mile, plus related tolls and parking fees, to figure out the deduction.

Unlike the standard mileage rates for business, moving or medical expense travel, this rate is set statutorily and is not adjusted annually. It has not changed since 1998.

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