PARTNERS

WEALTH MANAGEMENT

Third Quarter 2018 (630) 778-8088/info@partnerswealth.com

5 Ways That Can Help You Pay For Higher Education

The cost of sending children to college remains daunting, and annual increases in the price tag for higher education have outpaced the overall inflation rate for years. According to the College Board, yearly hikes in college costs during the past decade have averaged roughly 5%, while consumer prices in general have risen less than 3% a year.

But parents can take advantage of several college savings tools to help meet this steep challenge. Consider these five possibilities:

1. Section 529 plans: Section 529 plans, sponsored by U.S. states, encourage families to set aside funds for the future education expenses of beneficiaries. The contribution limit usually is at least $300,000. As long as certain requirements are met, your investment can grow without current taxes, and distributions made for qualifying college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—also are tax-free.

There are two main types of Section 529 plans: (1) prepaid tuition plans that let you prepay the cost of attending college years down the road at current rates and (2) college savings plans, whose assets are invested according to your preferences.

2. Custodial accounts: A traditional way of saving for college is to set up a custodial account under your state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). With these accounts you, or another custodian, manage the funds for the child's benefit until the child reaches the age of majority in the state. The advantages of Section 529 plans have tended to overshadow this approach in recent years.

There also are potential "kiddie tax" complications with custodial accounts. Under this rule, unearned income of a dependent child under age 24 may be taxed at the top tax rate of the child's parents to the extent that the child's income exceeds an annual threshold ($2,100 for 2017). This tax provision can eat into the amount being saved for college.

3. Minors' trusts: A minor's trust, authorized by Section 2503(c) of the tax code, is designed to provide funds for beneficiaries to use to pay for college. Like custodial accounts, minors' trusts have been around for a long time, but their popularity has waned because of the influx of Section 529 plans. Unlike custodial accounts, the trust can be set up to continue past the state's age of majority, as long as the beneficiaries don't exercise a limited right to withdraw funds.

With a minor's trust, trust income is taxed directly to the trust, so this arrangement avoids any kiddie tax problems. However, trust tax brackets

(Continued on page 4)

Education Investing

Higher education comes with a high and increasing price tag, so planning well in advance is important.

Approximate Cost of College Attendance (2017 USA average):
Public In-State $21,000
Public Out-of-State $36,000
Private $47,000

Inflation Impact:
3% inflation over 18 years means a 40% decrease in purchasing power
4% inflation over 18 years means a 50% decrease in purchasing power
5% inflation over 18 years means a 60% decrease in purchasing power

Returns & Inflation:
Over the past 50 years the S&P 500 stock index has averaged returns of about 10% per year
Over the past 50 years inflation has averaged about 4%

What to do:
- Start early
- Have a disciplined approach toward saving and investing
- Manage risk with appropriate diversification, balancing growth assets with stable fixed income assets and more actively manage risk as college age approaches

Our advisors can help create a plan to address your higher education goals.

John

Partners Wealth Management offers Securities through Kestra Investment Services, LLC (Kestra IS), member FINRA/SIPC and Investment Advisory Services through Kestra Advisory Servics, LLC (Kestra AS). Kestra AS and Kestra IS are not affiliated with any entity listed.

What Are The 3 R's Of Roth IRAs?

It's not reading, 'riting, and 'rithmatic, but when it comes to Roth IRAs, it pays to know the three R's: Roth conversions, rechacterizations, and reconversions. Understanding the rules for all of these could save you thousands of tax dollars.

Unlike with traditional IRAs, for which some of your contributions could be tax-deductible, money that goes into to a Roth IRA never is. However, after five years, the money coming out of a Roth is tax free. To qualify for that benefit, withdrawals must be made after age 59½, because of death or disability, or to buy a first home (up to a lifetime limit of $10,000).

But you just can't change a traditional IRA into a Roth IRA, or vice versa, by waving a magic wand. Here's a quick primer on Roth conversions, recharacterizations, and reconversions.

1. Roth IRA conversions. If you move funds from a traditional IRA into a Roth IRA, you'll be taxed on the amount you transfer in the year of the conversion. Essentially, the transfer is treated as a taxable distribution. For instance, if you convert $100,000 from a traditional IRA to a Roth, that's considered $100,000 of ordinary income that will be taxed at rates reaching as high as 39.6%.

To ease the pain of the conversion, you might do it in stages. That not only spreads out the tax hit but also may reduce it by keeping you in lower tax brackets.

2. Recharacterizations. Suppose that after a conversion the value of the assets in your account drops dramatically. Because you were taxed on the assets' value when it was higher, you might want to "undo" the conversion. If you meet the deadline, you can do this through a recharacterization.

When a rechacterization is completed, it's as if the conversion never occurred. The deadline is the due date for your tax return for the year of the conversion plus any allowable extension. For example, for a conversion you made in 2017, you have until October 15, 2018—April 15 plus a six-month extension—to recharacterize the Roth.

3. Reconversions. Finally, what happens if you change your mind again and want to go back to a Roth? It can be done through a reconversion.

However, the rules for reconversions are a little trickier. The earliest date you can reconvert is one of the following, whichever comes later:

- The beginning of the tax year following the tax year of the conversion;
- The end of the 30-day period beginning on the day of the recharacterization.

Beyond that date, moving money to a Roth from a traditional IRA is treated like a first-time conversion. ●

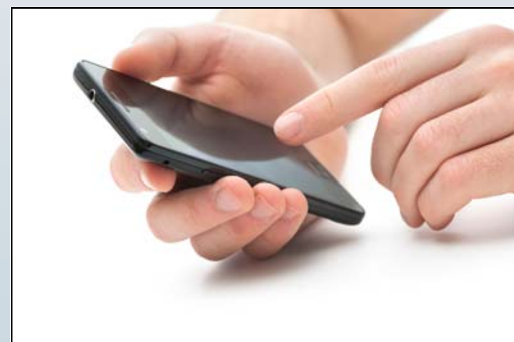
Watch Out For "Grandparent Scams"

It started innocently enough. Bill Frielander picked up the phone one recent morning at around 10 am. The person on the line said, "Hi Grandpa, it's Jason." To Bill, the voice sounded close enough to his grandson's that he didn't worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

But then "Jason" dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed $1,950 to keep his name out of the records. An attorney who was supposedly advising him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.

Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason's personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn't left the state in weeks and had not been in any accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate that he didn't fall for this "grandparent scam," but many others haven't been as lucky.



Key Components Of A Post-Divorce Estate Plan

Even the best-laid plans can go astray if you get divorced from a long-time spouse. Especially if you go your separate ways after raising children and acquiring property together, your estate plan may need to be revised, and pronto.

Frequently, the main objective in a divorce is to keep assets away from the ex-spouse while preserving wealth for the children. But this can become complicated when one or more of the children are still minors. Typically, your kids will be next in line to receive assets under your will.

What are the potential problems? Although a divorce generally erases the rights of an ex-spouse under a will, property going to minors will be held in a conservatorship until the age of majority in the state where you reside—usually, age 18. And, if your ex-spouse is the conservator, he or she may have more control over your assets than you would have liked. A court will supervise the conservator, but that person still has considerable discretion over what happens to property.

Other problems may arise if a child doesn't have the financial knowledge and expertise to manage assets after reaching the age of majority. A good chunk of your accumulated wealth could be squandered through spending sprees or bad investments.

But you don't have to stand pat and just let things play out. You can update your estate plan by creating or modifying one or more trusts. You also might eliminate or revise other trusts that had your ex-spouse playing a pivotal role. If the trust allows it, you might simply replace your former spouse with another person.

With a trust that you create, you get to name the person you want to be in charge as the trustee. This person will be responsible for managing investments in the trust, distributing funds as needed, and other related financial duties. The trustee you choose should be someone you trust—a family member, friend, or a financial advisor or institution.

A trust may have one principal purpose—for example, to limit the ability of children to withdraw funds—or several, and a main goal may be to minimize taxes under federal estate tax rules (as well as state inheritance taxes in some cases). These five types of trusts could be helpful as part of your estate plan—but may need to be modified if you get divorced.

1. Revocable living trusts: You can be the sole trustee during your lifetime and designate a successor upon incapacity or death. Thus, you'll retain a high level of control while you're alive. You may sell trust assets, amend the terms of the trust, or revoke it entirely. Generally, the trust becomes irrevocable when you die.

2. Life insurance trusts: Life insurance proceeds paid out from a policy that has you as the insured person are exempt from estate tax only if you don't possess any "incidents of ownership" (for example, the right to change beneficiaries) in the policy. To avoid dire tax results, you could set up an irrevocable life insurance trust (ILIT) and transfer complete ownership of the policy to the ILIT.

3. Bypass trusts: As the name implies, a bypass trust (also called a "credit shelter trust") is established so that funds can bypass your spouse's estate on their way to your children. Because the trust effectively can use the full estate tax exemption for each spouse, it enables a married couple to transfer millions of dollars without paying any federal estate tax.

4. Q-Tip trusts: With a qualified terminable interest property (Q-tip) trust, a surviving spouse must receive all the income, but not principal, and the children can receive the remainder upon the surviving spouse's death. This trust is often used to defer estate tax until the second death.

5. Spendthrift trusts: This type of trust is designed to protect against creditors (including a spouse you have divorced or are divorcing).

Finally, you may also use a trust for your own benefits, in lieu of a prenuptial agreement, to protect your own interests in the event you remarry. ●

Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable. They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds suspicious, the worst thing you can do is to help out the caller by referring to other confidential information (for example, the names and locations of other family members). Here's what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller's plight appears to be.
- Verify the person's identity by asking questions a stranger couldn't answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you've been told to "keep it a secret."
- Don't wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your "grandchild."
- Finally, the FTC advises consumers to report the incident at ftc.gov/complaint or call 877-FTC-HELP. ●

“New and Improved” QSBS Tax Break

Maybe you’re interested in investing in a new business venture that seems promising. It might even be a business you’re trying to kick-start yourself. Either way, you could be in line for a special tax break for investing in “qualified small business stock,” (QSBS).

If you hold onto QSBS for at least five years before selling it and you meet other tax law requirements, any profit on your investment is exempt from tax. The Protecting Americans from Tax Hikes (PATH) Act preserved this tax break permanently.

This tax exclusion for QSBS has been kicking around for a while. Prior to 2009, you could exclude only 50% of the gain from the sale of QSBS held at least five years. That effectively reduced the 28% tax rate on QSBS profits to 14%—just one percentage point lower than the maximum long-term capital gains tax rate of 15% (and only 6 percentage points less than the higher 20% long-term capital gains rate for investors in the top tax bracket for ordinary income).

Eventually, the tax exclusion for QSBS was raised to 75%, and after September 27, 2010, it was 100%. And although it was scheduled to fall to 50% after 2014, the PATH Act preserved the full 100% exclusion, retroactive to January 1, 2015, and made it permanent.

Now that the uncertainty is over you can comfortably invest in QSBS, knowing that you might benefit from big tax-free profits in the future if the company is successful.

But the tax exclusion isn’t automatic. To qualify, six requirements must be met:

1. The stock must have been issued after August 10, 1993.

2. The stock can’t have been acquired in exchange for other stock.

3. The issuing corporation must be a C corporation.

4. At least 80% of the corporation’s assets must be used in the active conduct of a qualified trade or business.

5. Certain businesses involving real estate or personal services (for example, law, health, financial services, etc.) are excluded.

6. The corporation can’t have had more than $50 million in assets at the time the stock was issued.

In addition to the 100% exclusion for long-term profits, you won’t owe any current tax on a gain from the sale of QSBS if you roll over the proceeds into new QSBS within 60 days.

Do keep in mind, however, that investments in new business ventures can be extremely risky, and tax savings won’t matter if your QSBS loses all or most of its value. Do your homework before investing and make sure that the investment makes good financial sense as well tax sense. ●

5 Ways That Can Help You Pay

(Continued from page 1)

are narrow, and significant investment earnings may be taxed at the top rate of 39.6%.

4. Coverdell Education Savings Accounts: Coverdell Education Savings Accounts (CESAs) operate like IRAs for education expenses. Withdrawals used to pay qualifying expenses are tax-free to the beneficiaries. However, the contribution limits pale next to those of Section 529 plans. The maximum annual contribution limit for a beneficiary is just $2,000 and hasn’t been increased in years.

Nevertheless, CESAs do offer some advantages. For one thing, unused assets can be rolled over tax-free for multiple beneficiaries. Furthermore, the funds in CESAs can pay for elementary and secondary schools as well as colleges. For this reason, such plans sometimes are used to supplement a Section 529 plan.

5. Financial aid: Finally, don’t overlook the role that financial aid can play in helping pay for your child’s education. Even relatively affluent families may qualify for some financial aid, so it makes sense to apply.

At the very least, students should fill out the Free Application for Federal Student Aid (FAFSA) provided by the federal government. To complement the FAFSA, some schools also may require the student to submit another form, the CSS Financial Aid PROFILE. And certain colleges and state agencies may request additional forms. Colleges use the information in these documents to calculate their financial aid offers.

Financial aid can come in several forms—as loans, grants, and scholarships. Generally, these benefits are tax-free to the students who receive them, although there are certain exceptions, particularly when financial aid involves work-study programs. ●

Partners Wealth Management | 1700 Park Street, Suite 200, Naperville, IL 60563 | 630-778-8088 | Fax: 630-778-8049 | www.partnerswealth.com | info@www.partnerswealth.com

Much of the material herein is provided by Advisor Products and is based on data gathered from what are believed to be reliable sources. It is not guaranteed by Kestra IS or Kestra AS as to accuracy. Kestra IS and Kestra AS do not provide tax or legal advice and are not Certified Public Accounting firms. Partners Wealth Management offers Securities through Kestra Investment Services, LLC (Kestra IS), member FINRA/SIPC and Investment Advisory Services through Kestra Advisory Servics, LLC (Kestra AS). Kestra IS and Kestra AS are not affiliated with any entity listed.

©2018 API