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College Financial Aid: Do Your Homework

If one or more of your children will reach college age soon, you may be wondering how you will manage all the costs. For many families, a financial aid package provides some level of tuition support in the form of grants, scholarships, loans, or work-study placements. Aid is primarily based on the family's need. If it is determined that you're able to afford the cost of college, your quest for assistance may be challenging, but not impossible.

Forms must be filled out in order to assess whether you qualify for aid or not. You can get an idea of your eligibility, however, *before* applying for aid by using the following formula:

The Five Percent Test

Take 5% of the value of your total family **assets** (including home equity, savings, and investments) and add this figure to your **adjusted gross income (AGI)** from last year's tax return. Divide that result by the estimated, annual cost of college. If the result is six or less, you could qualify for financial aid. If the final number is higher, you may have a difficult time convincing financial aid officers of your need.

No matter what you expect your chances to be, it is still worthwhile to go through the application process. Many different factors enter into the final outcome. Public and private institutions alike offer varying amounts of aid, and you may be pleasantly surprised.

Funding Sources

If aid is denied by your chosen institution, there are other options. The Federal government, state government, banks, insurance companies, and religious, ethnic, civic, and fraternal organizations are a few alternative

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A Vacation Home: The Ultimate Hideaway

Are you dreaming of a mountain cabin or an oceanfront bungalow hideaway? Then you may want to consider that a vacation home can offer some tax savings. Whether you choose to use the home solely for enjoyment or combine business and pleasure by renting the property part-time, it is important to understand the tax laws for a second home.

As long as the combined debt secured by the vacation home and your principal residence does not exceed $1.1 million, you can deduct all of the interest paid on a mortgage used to buy a second home. This advantage is restricted to two homes. Should you purchase a third home, interest on that mortgage is not deductible. However, regardless of how many homes you have, you may be able to deduct all of the property tax paid.

One break enjoyed by homeowners—the right to immediately deduct points paid on a mortgage—applies only to a principal residence. Points paid on a loan for a second home must be deducted gradually, as the mortgage is paid off.

Personal Residence

Your vacation home is considered a personal residence if you rent it for no more than 14 days a year. In such a situation, you may retain the rent tax free without jeopardizing your mortgage interest and tax deductions. However, you may not

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funding sources. The number of Federal aid programs available is encouraging. But keep in mind that potential yearly budget cuts may have an impact on some of the following popular programs, while others may remain unaffected:

Pell Grant—These grants are generally awarded to undergraduates based on need and family income. The size of the grant depends on program funding. The maximum award for the 2015–2016 award year is $5,775, and does not need to be repaid.

Federal Supplemental Educational Opportunity Grant (FSEOG)—Students who receive financial aid from the FSEOG are awarded in amounts from $100 up to $4,000. The award is determined by a student's financial situation and Expected Family Contribution (EFC). It is eligible for use at approximately 4,000 colleges and universities. The money given by the FSEOG is only available to students who are currently enrolled in school or have already been accepted for future enrollment. For those students currently finishing high school or other courses prior to college, it is important to apply for the FSEOG early due to the length of the application process, and because available funding may be granted before the completion of the process. Like the Pell Grant, the FSEOG is essentially "free money" that does not need to be repaid after student graduation.

Federal Perkins Loan—These loans are generally available for students in exceptional financial need who will be enrolled either full time or part time. The amount an individual can borrow depends on his or her financial situation, the amount of other aid to be received, and the availability of funds at the specific college or career school. A student should apply for Federal student aid early to assure being considered. Due to limited funds, however, not everyone who qualifies will receive a Perkins Loan.

An undergraduate student may be eligible to receive up to $5,500 a year. The total an individual can borrow as an undergraduate is $27,500. A graduate or professional student may be eligible to receive up to $8,000 per year. The total an individual can borrow as a graduate student is $60,000, which includes amounts borrowed as an undergraduate.

Federal Work-Study Program—This program provides an award in exchange for work. The typical school work schedule is about 12 to 15 hours per week (up to 40 hours per week during vacations). These

jobs may be on or off campus, but they are generally with a government agency or nonprofit organization if they are off campus (under some circumstances, a school may have arrangements with a private for-profit company). While the pay is generally modest, it is at least minimum wage. However, hours and compensation cannot exceed the Federal Work-Study award.

Direct Subsidized Loan—The U.S. Department of Education offers low-interest loans to eligible students to help cover the cost of college or career school. Students may be eligible to receive subsidized and unsubsidized loans based on their *financial need*.

An undergraduate student can borrow an annual amount of $3,500-$7,500, up to a lifetime limit of $23,000, depending on grade level. For loans first disbursed between July 1, 2015, and July 1, 2016, there is a 4.29% interest rate.

Unsubsidized Stafford Loan—As of July 1, 2012, the Department of Education ceased offering subsidized loans to graduate students. However, *unsubsidized* Stafford loans are available for eligible graduate students who can borrow up to $20,500 a year, with a maximum total of $138,500.

Direct PLUS Loan—Parents of dependent undergraduate students enrolled at least half-time and graduate students are eligible for this loan. The amount of the loan is generally limited to the actual "cost of attendance" minus any financial aid already received. Parents taking this loan must pass a credit check. PLUS loans have a fixed interest rate of 6.84%.

Some states base their programs not only on need, but also on academic performance. The recipients of state loans generally must be legal residents of the state and enrolled in a college or university within their state. In addition, some states have "reciprocity agreements" with other states. Remember, you may qualify for more aid than you think, and it is always better to apply. For more information, visit the U.S. Department of Education website at www.ed.gov. $

Giving Back to Your Community While Improving Your Bottom Line

Regardless of size, companies benefit when the community in which they do business thrives. For entrepreneurs, giving back to the community is more than just a charitable act; it makes good business sense. If you have been reluctant to get involved in philanthropic activities, fearing it could cost too much and distract your employees, think again. Community involvement can strengthen your company directly by bringing in new business and indirectly by enhancing your company's reputation and improving employee morale.

Crafting a charitable giving strategy for your business involves more than just selecting a worthy organization and writing a check. While you may get a tax deduction on cash donations, your business may get considerably more out of community involvement, especially if you carefully consider the causes you want to support and the organizations that would make appropriate partners for your company.

The type of charitable giving you choose may be influenced by the type of business you operate, the interests of your employees, and the needs of the community. Whether your company produces goods or provides services, organizations within your community could likely benefit from your support. A restaurant or caterer, for example, could choose to donate leftovers to a soup kitchen or homeless shelter. A construction company could donate materials and labor for building a community playground or renovating a youth center. Involvement in such worthy initiatives may be very effective in making a positive influence in the community.

To maximize the impact of your charitable efforts, your company (or the organization your company is helping) may choose to distribute a press release or inform the local media about upcoming events and activities. This often results in free—and positive—publicity for your company. It may also be possible for the charity to help increase your company's visibility through its marketing resources. When partnering with a nonprofit, you may be able to arrange for your company's name and logo to appear on the organization's advertising materials and website.

Ongoing charitable involvement can help attract new customers and engender loyalty within your existing customer base. A company that donates a portion of its profits to worthy charitable causes may gain a competitive advantage. It can generate goodwill among

customers and enhance your company's reputation to be associated with important causes in your community, such as helping abused children, improving literacy skills, or finding homes for abandoned pets.

Employee morale can also be improved through charitable initiatives. When deciding which causes your business will support, be sure to include your employees, especially if you want them to participate in events. By asking your employees what causes are close to their hearts, you may discover that some have personal passions that can prove valuable to a charitable campaign. Providing paid time off for charitable work may be considered a valuable benefit by your staff. Having your employees volunteer as a group can serve as a positive team-building exercise, as well as provide a welcome break from the work routine.

Another benefit of giving back to the community is the potential for networking with other local businesses. Through professional clubs or your local chamber of commerce, you may meet other business owners who may want to cooperate with you in organizing events. By participating in charitable events, you and/or your employees may forge valuable friendships with other business owners, staff, and the media.

Regardless of your company's size and resources, you can find a way to make a difference in your community. Even minor gifts—such as allowing your facilities to be used for a school event or donating used equipment—can go a long way toward making your community a better place to live and do business. And that's the bottom line. $

Roth IRAs for Kids

It may be difficult to convince your teenagers to participate in their financial futures, but if you can persuade them to contribute at least part of their babysitting or after-school job money to a Roth Individual Retirement Account (IRA), they may thank you later.

Anyone with earned income below $132,000 for single filers and $194,000 for married joint filers in 2016 can open a Roth IRA retirement account. Contributions are nondeductible, but earnings and qualifying distributions accumulate tax free. Because children seldom make enough to owe income tax, they are usually better off with a Roth IRA than a tax-deferred traditional IRA. For 2016, your child can contribute up to $5,500 (or earned income, whichever is less) to a Roth IRA.

Saving for retirement early can generate substantial results. Suppose your 14-year-old daughter uses $1,000 to open a Roth IRA. If she makes no additional contributions and the funds grow at 8% annually, she will have more than $50,000 to withdraw tax free at age 65. Or suppose your son opens a Roth IRA with $2,000 when he is 15-years-old, and then he contributes $2,000 annually for the next 10 years. The estimated value of his tax-free fund balance at age 65 will exceed $700,000, if the annual growth rate is 8%.*

A Roth IRA offers the greatest growth potential if the account is left untouched until the holder reaches the age of 59½. At that age, the holder can withdraw earnings tax free, provided he or she has owned the account for five years. The IRS does permit penalty-free early withdrawals to pay for education or to help with a first-time home purchase. However, taxes will be owed on nonqualified early withdrawals.

Before you open a Roth IRA for your child, keep in mind that you cannot stop your child from withdrawing money from the account whenever he or she wants after reaching the age of majority, which is 18 in most states. If you are uncertain about your child's ability to handle money, opening an account in his or her name may not be the best choice.

Also, be aware that only taxable compensation income can be contributed to a Roth IRA. In general, paying your children for doing chores around the house does not qualify as compensation income, as this is an intrafamily transaction not usually reported to the IRS. However, if you own your own business, you are permitted to hire your minor children to do certain jobs. Provided you pay your

children a fair market wage for the services performed, their earnings would be considered compensation income and could be invested in a Roth IRA.

It is essential to keep detailed records of how the money placed in a Roth IRA was earned, even if a teenager's working arrangements were informal (e.g., babysitting or mowing the lawn for neighbors) and he or she did not earn enough to owe income tax. Penalties could apply if the IRS determines the funds contributed to a Roth IRA were not compensation income.

The good news is that if, for example, your teenage son goes out and blows his paycheck on a new smartphone and skateboard, all is not lost. If he earned $2,500 over the summer but spent all the money, you could still contribute the amount equivalent to his taxable earnings into a Roth IRA on his behalf, thereby helping to ensure that at least some funds have been set aside for his retirement, when skateboarding days are behind him. $

These hypothetical examples are for illustrative purposes only. They are not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

Taking Charitable Giving to Another Level

Did you know that you can gift a new or existing life insurance policy to your favorite charity? When properly designed, a **charitable life insurance** program may improve your overall financial situation and offer tax benefits, all while supporting a charitable cause.

Generally, there are three methods used to gift a life insurance policy to a qualifying charity: a **charitable bequest**, a **charitable gift**, and a **charity-owned policy**. Regardless of the strategy, policy ownership and **beneficiary** arrangements play an important role in the planning process. A consultation with a qualified legal professional can clarify your goals and expectations, provide information on the limitations on charitable deductions, and help you achieve the desired results, while avoiding unnecessary complications.

A Comparison of Gifting Strategies

A *charitable bequest* is ideal if you would like a charity to benefit from the proceeds of an existing life insurance policy but do not wish to surrender control during your lifetime. By changing the designated beneficiary to a desired charity, you retain the benefits of owning a policy because **incidents of ownership** still exist in the policy. There is no immediate income tax benefit for this type of charitable gift. Upon your death, however, even though the proceeds will be included in your gross estate, a charitable deduction for the full value of the policy proceeds is allowed.

If you wish to receive an *immediate* income tax deduction for a gift of an existing policy, consider a *charitable gift*. By changing the beneficiary *and* ownership designations to a favorite charity, you can obtain an immediate gift tax charitable deduction for the policy. This deduction is based on the lesser of your cost basis or the value of the policy. You may also qualify for an income tax deduction.

If you make regular cash contributions to a charity, you may be able to leverage smaller gifts into a larger endowment. With a *charity-owned policy*, a life insurance policy—where permitted by state law—is purchased by and made payable to a charity of your choice. Policy premiums are technically paid by the charity. To offset this cost, you make annual cash gifts to the charity, and as a result, you may be eligible to deduct a portion of your charitable donations from your income taxes. A gift tax charitable deduction for the full value of the annual cash gift is allowed. This strategy creates a "win-win" situation for you and the recipient charity.

Know the Insurable Interest Laws

Regardless of your gifting strategy, be aware of the insurable interest laws in the state where the policy was originally purchased. Although the donor makes contributions to the charity in cash, which is then used by the charity to pay premiums on the life insurance policy, the life insurance policy insures the donor's life. Insurable interest is typically considered to be an interest based on family, marriage, or financial obligation; consequently, the charity's insurable interest in the policy may be called into question, thereby jeopardizing the tax benefit and placing the policy proceeds in the donor's estate. However, a case for insurable interest can be anticipated and incorporated into the trust documents.

The Best of Both Worlds

If you are charitably inclined and are seeking tax advantages, the gifting of life insurance can offer unique planning opportunities. The potential for charitable income tax deductions or an estate tax reduction, combined with supporting a worthy cause, may make this type of gift appropriate for you. Usually, such charitable life insurance gifting strategies can be accomplished with few legal challenges and little publicity. Careful planning, with the guidance of a qualified legal professional, can help ensure that your charitable life insurance program is structured according to your wishes. $

How Social Security Affects Your Retirement

When contemplating retirement, you, like many other people today, may be counting on Social Security benefits to provide you with a basic level of income. The age at which you choose to retire is an important part of the equation. In addition, there are many other issues to consider when making that choice.

Let's look at the following questions: 1) How would an early retirement, for example, at age 62 vs. age 65, affect your Social Security benefits? 2) How will those benefits be taxed? and 3) Is it in your best interest to continue working to earn extra income when your Social Security benefits could be reduced, based on your earnings?

What's the Maximum?

As most people realize, Social Security provides only a *base level* of income. The maximum benefit for a person who retires in 2016 at full retirement age (65–67 depending on your year of birth) is $2,639 per month. In comparison, the maximum benefit in 2015 was $2,663 per month. The combination of a lack of cost-of-living adjustment and a rise in the national average wage index decreased the benefit by $24. It is important to note that the benefit for a non-working spouse is only 50% of that amount.

Should You Delay Retirement?

If you delay retirement past your **full retirement age**, your monthly benefit will increase, based on the age at which you elect to take retirement benefits. But, upon reaching age 70, the benefit increase no longer applies, even if you continue to delay the payment of benefits.

Receiving benefits at age 62 (considered early retirement) is appealing to many people. However, if you decide to take early retirement benefits from Social Security, your monthly benefit amount will be permanently reduced by 20–30%, based on your full retirement age.

Some people continue working and earning additional money to supplement basic Social Security income. This is where you need to be careful. If you earn more than the maximum amount allowed, you may forfeit some of your benefits. If you are under full retirement age, receive Social Security benefits, and earn additional income, your benefits will be reduced by $1 for each $2 you earn over $15,720 in 2016. During the year in which you attain full retirement age, your benefits will be reduced by $1 for every $3 earned over $41,880 in 2016. Upon attainment of full retirement age, there is no earnings limit, and Social Security benefits will not be reduced.

Full Retirement Age: It's Changing

For a long time, the retirement age has been 65. Due to longer life expectancies, that age will increase in gradual steps until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later. Age 62 still remains the earliest you may begin to receive Social Security retirement benefits.

For Your Information

Note that as of April 2011, the SSA stopped mailing out annual estimated benefit statements to workers under age 60 and retirees already receiving benefits as a fiscal restraint measure. To receive an estimate of your projected payments, you can go to the SSA's website at www.ssa.gov. $

Real Estate: A Form of Charitable Giving

In unpredictable economic times, many donors may be wary of making large donations of cash, even to charities they would otherwise like to support. Nonprofits are therefore increasingly encouraging donors to make gifts of non-liquid assets, including real estate. When thoroughly screened and properly structured, real estate gifts can help donors meet their financial planning and philanthropic goals, while providing charities with a fresh source of funding.

Although real estate holdings make up a significant share of the assets for U.S. households, only a small proportion of charitable contributions take the form of land or buildings. Many people who own surplus real estate may prefer to donate their appreciated property to charity rather than sell the property themselves, especially if their goal is to minimize taxes or generate retirement income. Because real estate gifts are more complex and costly for charities to process and manage than cash donations, it is important to consider donating to charitable organizations with a clear set of gift acceptance policies and procedures in place.

Prospective donors should look for policy guidelines that outline the types of properties that will and will not be accepted, such as residential, commercial, or undeveloped land. The types of estate planning structures that donors may use when making these gifts should also be stated, such as charitable remainder trusts, charitable gift annuities, and retained life estates. In addition, find out if there are stipulations on the charity's acceptance of properties that come with mortgages or other risk factors.

How It Works

After a real estate gift has been approved on a preliminary basis by a charity, the donor may then be asked to provide more complete information about the property. This due diligence phase generally includes an investigation of the title with the help of a real estate attorney, assessments of the local market and environmental conditions, a professional inspection, and a site visit by the organization's representative. Typically, the charitable organization covers the costs of conducting these studies. After the due diligence has been completed and the charity has agreed to accept the gift, the donor would be notified of the findings of the investigations, and of plans for how the final transfer of the property will occur.

When considering charitable gifts of real estate, there are multiple advantages for donors, including generating income, deferring or lowering taxes, and eliminating ongoing expenses of property maintenance. Be sure to consult your tax professional for more information about real estate contributions to charities. $

A Vacation Home: The Ultimate Hideaway

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deduct any rental-related expenses. If you rent out the house on a continual basis, things may become more complicated. Depending on the breakdown between personal and rental use, different rules may apply.

If you buy primarily for pleasure but rent for 15 days or more, the rent you receive is taxable. Because the house is still considered a personal residence, you may deduct all of the interest and property tax. You may also be able to deduct other rental-related expenses, including the cost of utilities, repairs, and insurance attributable to the time the house is rented. In some cases, you may be able to deduct depreciation. When the house is considered a personal residence, rental deductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house combined with the operating expenses more than offset rental income, thus limiting your ability to write off depreciation.

Rental Property

Now consider your tax situation if you buy a property primarily as an investment and limit your personal use of the property to 14 days a year (or 10% of the number of rental days, whichever is greater). Because the house is a rental property according to the Internal Revenue Service (IRS), your deductions can exceed the amount you receive in rental income.

If your rental income does not cover the cost of renting the house, you may be able to claim a taxable loss. Rental losses are classified as passive and can be deducted only against passive income, such as that from another rental property that realizes a gain. If you do not have passive income to shelter, the losses have no immediate value; however, unused losses can be used in the future when you have passive income.

There's an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under $100,000 ($50,000 if married filing separately) to deduct up to $25,000 ($12,500 if married filing separately) of passive losses against other kinds of income, including salaries. To qualify, you must actively manage the property. The $25,000 allowance is gradually phased out for taxpayers whose AGI is between $100,000 and $150,000.

If your vacation home is considered a rental property, the mortgage interest attributable to the time the premises are rented is a business deduction. The remainder cannot be deducted as home mortgage interest since the house doesn't qualify as a personal residence.

These tax laws also apply to apartments, condominiums, mobile homes, or boats with basic living accommodations. Generally, these are considered rental properties if they include a sleeping space, bathroom, and cooking facilities. If you are considering the purchase of a vacation home, keep in mind that, from a tax perspective, that mountain cabin or oceanfront bungalow may be the ultimate dream home. $