Capital Management

In This Issue

* Underscoring the Need to Plan Ahead

* 529 Plans

* Coverdells

* UGMA/UTMA Accounts

* Considerations

More About Us

Greetings!

Our newsletter this month is titled "College Costs Continue to Rise -- Underscoring the Need to Plan Ahead."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

Doug Flynn, CFP®, ChFC®
Rich Zito, CFP®, CMFC®
Ryan Haiss, CFP®
Steve Aberman
www.FlynnZito.com

Flynn Zito Capital Management, LLC
A Registered Investment Advisor
585 Stewart Avenue, Suite 620
Garden City, NY 11530

(516) 746-9000
(516) 746-0300 fax
flynn.zito@lpl.com

Underscoring the Need to Plan Ahead

College prices are up again this year. According to The College Board's latest Trends in College Pricing, the average total cost to attend one year at a four-year public, in-state college now runs over $21,000, and over $48,000 at a private, nonprofit four-year school. The projected average total college costs for a child born in 2018 exceed $240,000 for a four-year public college and top $550,000 for a private college.1

Clearly, anyone looking to fund a child's education will want to plan ahead. The good news is that there are several tax-advantaged ways to save for college -- 529 plans, Coverdell Education Savings Accounts, and custodial accounts created under the Unified Gifts to Minors Act (UGMA) or Unified Transfers to Minors Act (UTMA). While these accounts share some common characteristics, they vary in their contribution limits, income limits, ownership of the account, and other restrictions. Below is a summary of each.

529 Plans

Named after the section of the federal tax code that governs them, 529 plans are generally sponsored by individual states or, in some cases, by qualified educational institutions. They are administered by investment companies, which also oversee the underlying assets.

There are two types of 529 plans. The more familiar one, the education savings plan, allows for the investment of contributions into portfolios of mutual funds or similar financial instruments. Most are national plans -- that is, residents of one state may use a plan sponsored by another state.

Other key features of 529 education savings plans include:

- Generous lifetime contribution limits that often exceed $200,000 per beneficiary.
- Tax rules that let anyone give up to $15,000 in 2018, free from federal gift taxes, to as many individuals as they choose. Donors also have the option of averaging a single lump-sum contribution over five years, effectively allowing them to give up to $75,000 at one time, gift tax free.
- No income restrictions on contributors to a 529 plan.
- Earnings accumulate tax free.
- Money in a college savings plan may be used at any eligible college or university for qualified expenses such as tuition, books, and computer equipment. And, 529 plans now may also be used to fund up to $10,000 per year in qualified expenses at eligible K-12 schools.
- Qualified withdrawals are free of federal income taxes and may be exempt from state taxes as well

(tax rules vary from state to state).

- The individual who creates a 529 plan account on behalf of a beneficiary generally maintains complete control over the account.
- Account owners may also change beneficiaries.
- Contributions to 529 plans may provide a state tax deduction or credit for residents of the sponsoring state. If your state or your designated beneficiary's state offers a 529 plan, you may want to consider what, if any, potential state income tax or other benefits it offers before investing.

The second type of 529 plan, called a prepaid tuition plan, lets you pay future tuition at today's rates, essentially taking inflation out of the equation. These plans are, in general, available to residents of the sponsoring state for in-state tuition only, although some state schools offer them to out-of-state students, too, and some private schools offer them as well.

Coverdells

Coverdell Education Savings Accounts allow tax-free withdrawals for elementary and high school expenses in addition to college costs.

- Contributions are capped at $2,000 annually per beneficiary and are made with post-tax money. Excess contributions are subject to a 6% federal excise tax.
- The deadline to contribute to a Coverdell is generally April 15, the same deadline that applies to IRAs.
- Account owners may also change beneficiaries.
- You cannot contribute if your modified adjusted gross income is more than $110,000 if you file singly or more than $220,000 if you file jointly.
- Earnings accumulate tax free.
- Withdrawals are federally tax free when used to pay qualified elementary, secondary, or college expenses.
- The beneficiary can take withdrawals at any time, but any amounts in excess of his or her qualified education expenses will be taxable as income. A 10% additional federal tax may also apply.
- Assets generally must be used before the beneficiary's 30th birthday.

UGMA/UTMA Accounts

UGMA/UTMA custodial accounts are not college savings accounts per se, but they do offer potential gift tax and estate tax benefits. Under the guidelines of UGMA or UTMA -- nomenclature varies by state -- adults may establish and contribute to a custodial account in a minor's name without having to create a trust or name a legal guardian.

Other key features include:

- No limits on contributions.
- No withdrawal restrictions as long as the money is used for the benefit of the minor.
- Ownership of the assets by the minor, not the contributor.

- Investment earnings accumulate tax free for the contributor, but the minor may be subject to taxation at the kiddie tax rates. [2]
- Upon reaching adulthood, the child gains complete control of the UGMA/UTMA account and is not required to spend the money on college.

Considerations

Choosing a college investment vehicle is not necessarily a "one or the other" decision -- it may make sense for you to contribute to more than one type of account simultaneously. Speak with a financial and tax advisor about your particular needs.

Footnotes/Disclaimers

[1]Source: The College Board, Trends in College Pricing 2018, October 2018. Costs include tuition, fees, room and board for the 2018/1019 academic year. Projections are based on 2018-2019 costs and assume annual increases of 6%.

[2]For tax years beginning after December 31, 2017 and before January 1, 2026, taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates.
Because of the possibility of human or mechanical error by DST Systems, Inc. or its sources, neither DST Systems, Inc. nor its sources guarantees the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. In no event shall DST Systems, Inc. be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of the content.
© 2018 DST Systems, Inc. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.
The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. This article was prepared by DST Systems Inc. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. We suggest that you discuss your specific situation with a qualified tax or legal advisor. Please consult me if you have any questions. LPL Financial Representatives offer access to Trust Services through The Private Trust Company N.A., an affiliate of LPL Financial.
To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.
For Public Use:

Tracking #1-792163

Exp: 11/20