



Dollars & Sense

RUOTOLO, SPEWAK & CO.
101 Chestnut Avenue
Mount Laurel, NJ 08054
(856) 273-1282
FAX: (856) 273-6636
www.rs-co.com

Volume 6 Issue I

FALL 2004

College Plans For Every Tax Bracket

Finding the right investment vehicle for your college savings isn't easy. The reality is that no one college savings method works well for every family. The right way for you, personally, to save for college depends on several factors, including:

- Your tax bracket
- Your child's age
- How much control you want over your investments
- How much financial aid you expect to get

Many people don't realize that financial aid is based largely on income -- primarily that of the parent, but also that of the student. (Assets matter, too: The typical college will want the student to spend 35% of their savings on college costs, while the parent is expected to contribute 5% of certain assets each year.)

The lowest brackets

This includes folks in the 10% and 15% brackets, which currently means taxable incomes below:

- \$28,400 for single filers
- \$56,800 for married filing jointly

If you're in the lowest brackets, you don't benefit all that much from tax-deferred accounts because you don't pay that much income tax to start with. You also probably won't be able to save the huge amounts that might make tax deferral a better deal. But you do have the best shot at getting significant financial aid. So your guiding principal should be to save in ways that don't affect your child's ability to earn scholarships and grants later. Here are some do's and don'ts for your tax bracket:

Don't invest in Coverdells or custodials. Coverdells used to be known as Education IRAs, while custodial accounts include UTMAs (Uniform Transfers to Minors Act) or UGMAs (Uniform Gifts to Minors Act). Colleges consider these accounts to be the students' assets, which will count heavily against them when financial aid packages are calculated.

Think twice about 529 plans. These state-run, tax-deferred plans are a pretty great deal for higher-income parents, but they have a significant disadvantage: You can't claim the valuable Hope or Lifetime credit



for school expenses you pay with 529 plan funds. (These credits aren't available to singles with AGIs over \$51,000 or married with AGIs over \$102,000.)

There's also a lot of uncertainty about how these relatively new plans will impact financial aid. Most colleges treat the money in 529 plans as the parents' asset, which is good, but some count distributions from the plans as the student's income—which is bad, since each \$1 of student income can reduce the next year's financial aid package by up to 50 cents.

Finally, if you don't end up spending the money on qualified college expenses, you'll face taxes and penalties.

Keep your savings in your own name. Parental assets count less heavily in financial aid calculations. Today's lower tax rates on capital gains and dividends means you could pay as little as 5% on your savings. Plus, you have the flexibility to use the money any way you want.

Consider investing in your home equity or retirement savings. Most colleges don't count these assets at all. If your child makes it into an elite private school that does,

RS&Co Highlights 2

Life Insurance 3

Writing for Fundraisers 3

Community Events 4

you'll still be expected to spend only a small portion of these savings on their education.

Massed in the middle

Folks in the 25% bracket include those with taxable incomes below:

- \$68,800 for single filers
- \$114,650 for married filing jointly

You've still got a chance at financial aid, but your higher income means you'll be expected to contribute more of your own money. You also get more benefit from tax-deferred accounts than lower earners. That

(Continued on page 2)

QUICKBOOKS TIP:

SALES TAX

- Turn sales tax on by going to the Edit menu, select preference, and the sales tax icon.
- Set-up Sales Tax Items for each state that you do business in using the item list.
- Set-up sales items and customers with the most common state and whether they are taxable or non-taxable.
- Both the state and the taxability can be overridden at the time of invoicing.
- This will track your sales by state for sales tax and corporate tax return purposes.
- Print sales tax reports from the vendor menu to give you the info for the tax returns. Use Pay Sales Tax to correctly track the cumulative unpaid sales tax.

MICROSOFT WORD TIP:

AUTOCORRECT

- If you find that you consistently misspell the same word in the same way, you can tell Word to fix the error automatically whenever it comes up.
- When checking spelling (by selecting Tools, Spelling And Grammar), instead of clicking the Change button when you encounter the misspelled word, select the correct word from the Suggestions box and press Auto-Correct. The next time Word encounters the word misspelled in that particular way, it will silently correct the word for you, and you may never even know you made a mistake.

College Plans

(Continued from page 1)

means it makes more sense for you to take advantage of tax-advantaged options, despite their restrictions on how and when you can spend the money.

Avoid custodial accounts such as UTMA's and UGMA's, which count heavily against your child in financial aid calculations.

Invest in a Coverdell only if you plan to use the money for private-school education or tutoring before college age.

Weigh the risks of 529 plans. As noted earlier, 529s can limit your ability to take valuable education credits and may be a factor in reducing financial aid awards. On the other hand, the money's tax-free when used for education and your state may allow you to deduct your contributions. The tax breaks will outweigh the risks for many people in your bracket, particularly if you expect your income to continue growing.

Invest in savings in your own name as well as your home equity and retirement accounts, for the reasons noted earlier.

Consider savings bonds. If you don't like risk, savings bonds offer a safe (if low return) way to save, plus a potential tax break: the interest on savings bonds is tax free under certain circumstances. (The owner of the bond can't be the child, for example, and the money must be used for tuition or fees.) The ability to take advantage of this break disappears when single incomes exceed \$72,600 and married incomes exceed \$116,400.

Movin' on up

You're in the 28% bracket when your taxable income is up to:

- \$143,500 for single filers
- \$174,700 for married filing jointly

It's not impossible for you to get financial aid. After all, anyone can get loans, and your child may score some merit (rather than need-based) scholarships. If you've got more than one child at expensive schools, you also could get some help. Just don't count on getting much.

Invest in Coverdells, particularly if you'll have private school expenses before college. The ability to contribute ends for singles with AGIs over \$110,000 and married with AGIs over \$220,000.

A perfect summer day is when the sun is shining, the breeze is blowing, the birds are singing, and the lawn mower is broken.

-James Dent



RS&Co Highlights



INTERN PROGRAM

In our continuing support of the future of the CPA profession, RS&Co hired four interns during the Spring college semester. The interns performed a variety of tasks and received firsthand experience of tax season. RS&Co will also be hiring two interns during the summer.

Our internship program is dedicated to helping students successfully meet their educational goals and providing opportunities to

PEER REVIEW UPDATE

As mentioned in the last newsletter, RS&Co recently completed our peer review for 2003. Our profession requires accounting firms to have a thorough review of their quality control policies and procedures relating to their accounting and auditing practice.

The final results are in! RS&Co received a clean report, the best type of opinion that can be reached. This is due to the hard work and commitment of all our staff.

Definitely check out 529s. There are no income limitations to contribute, and you'll reap significant tax advantages. You also can customize your investments.

Choose tax-wise strategies if you save in your own name. You'll pay 15% on dividends and long-term capital gains, but 28% on interest and short-term gains. Limiting your trading and investing to low-turnover mutual funds can help cut your tax bill, while tax-free municipal bonds might be an appropriate choice for the fixed-income portion of your savings.

Keep saving for your own retirement, and build up home equity.

Top of the heap

You're in the 33% bracket if your AGI, married, single or otherwise, is up to \$311,950. Above that, you're in the 35% bracket.

Invest in 529s. Besides the tax breaks, these college savings plans offer a big estate-planning advantage. Money contributed to a 529 plan is considered a completed gift, which means you don't have to worry about paying estate taxes on your account should you die. But you retain control over who gets the money and can change beneficiaries any time you want. In addition, you can make a one-time contribution of up to \$55,000 and not have to worry about gift taxes (as long as you make no other gifts to

that beneficiary for five years). There are no income restrictions for contributors, and many plans allow you to contribute a total of over \$200,000.

Consider UTMA's and UGMA's if 529s don't do it for you. If you want even more choice over your investments, old-fashioned custodial accounts give you more control. You can invest in individual stocks and bonds, making all the buy-and-sell decisions yourself. Gains are taxed at your child's presumably lower rate. The big disadvantage: you lose control over the money when your child reaches a certain age, typically 18 or 21, depending on the state.

Used by permission. Liz Pulliam Weston is a personal finance columnist for MSN Money (<http://money.msn.com>), where this article first appeared.

*All amounts are from tax year 2003.

DID YOU KNOW...

For dripless watering of hanging plants, put a few ice cubes on top of the soil (but not against the plant). The melted water will reach the roots slowly enough to be absorbed, and by the time it gets there it will be warm.

If you run a wick made of soft cotton rope or nylon hose from the soil in a pot to a container of water, your plant will water itself.

Life Insurance

Do I really need life insurance?

You don't need life insurance so long as no one else is financially dependent on you. But examine this question carefully. If you have children and their financial well-being would be materially affected by your death, you probably need life insurance. If you're married but childless, you might still want coverage. The same might be true if you feel your parents will someday depend on you financially. The larger the financial load you carry, and the more people depend on you in this way, the more you need life insurance.

How much life insurance do I need?

A fairly good rule of thumb is that you need coverage equal to at least 7 years of current annual income, assuming you are married and have two or more children. Another way to look at it is to add up debts and future expenditures, such as your mortgage, other loans, college and weddings for your children. If, for example, you'd like your spouse to have enough of a life insurance death benefit to be able to pay off half of your mortgage and half of your children's college education, then simply add half of your mortgage amount to half of their estimated college costs and buy that amount of life insurance. Of course, you can always ask an insur-

ance agent, financial planner or other expert to help you determine how much life insurance coverage is adequate. But since many of them work on commission, don't let them push you into buying too much coverage.

As a single person, do I really need life insurance to pay funeral expenses and take care of my debts?

If you're single, you may need life insurance for a variety of reasons. However, the old industry sales pitch that you need insurance to pay for your funeral and retire your debts if you die prematurely is not among them. Your parents, siblings, or friends will probably pitch in to pay for your funeral if necessary. And unless you co-signed a loan with parents, partners, or friends, no one else will be responsible for paying your debts. Your assets will be sold to pay your creditors, and if your debts outweigh your assets, your creditors will take the loss.

*Do you need to e-mail us?
info@rs-co.com*

Save Money

A modest amount of monthly savings can add up to big dollars. If a kindergartner (age six) starts a monthly savings plan, how much money can be accumulated assuming an 8% return?

Monthly Savings	\$5	\$10	\$15	\$20
Through high school	\$1,373	\$2,747	\$4,121	\$5,495
Through college	\$2,173	\$4,347	\$6,520	\$8,694
Through age 40	\$10,603	\$21,206	\$31,809	\$42,413
Through age 65	\$82,616	\$165,232	\$247,848	\$330,463

If a seventh grader (age 12) starts a monthly savings plan, how much money can be accumulated assuming an 8% return?

Monthly Savings	\$20	\$30	\$40	\$50
Through high school	\$1,853	\$2,779	\$3,705	\$4,632
Through college	\$3,683	\$5,525	\$7,367	\$9,208
Through age 40	\$25,137	\$37,707	\$50,276	\$62,844
Through age 65	\$203,663	\$305,494	\$407,326	\$509,157



"Your talk of promptness seems to have worked - everybody was out of here by one minute after five."

Writing for Fundraisers

Step 1: DEFINE YOUR GOALS.

What are you seeking to do with the piece you're writing? Examples might be:

- Educate and activate your readers
- Build trust and involvement in your organization
- Garner support for your good work

Step 2: FOCUS ON YOUR AUDIENCE.

Writing with your reader in mind is like engaging in an intimate conversation. To get a good picture of who your reader is, try answering the following questions:

- Who are you communicating with? You probably have several different audiences in mind.
- Why should your audience care about your work? How can you relate your work to their real-life experiences?
- What does your audience already know

about your work, and how can you build on that?

Step 3: IDENTIFY THE INFORMATION YOU NEED TO CONVEY.

Start outlining what you want your reader to take away from reading your piece. This might be a set of facts, a certain emotion, and/or a need to act.

- What is the problem your organization or project is addressing? Why is that issue important? What would happen if you didn't address this problem?
- What are the solutions you are proposing? What are the specific actions you're taking and/or asking your audience to take?
- What is your organization's vision? What would success look like?
- How has your organization made a difference in people's lives?

Through December

Neighborhood Gardens Association will be a recipient of Abbraccio Restaurant's Sunday Breakfast Donation Program on the 2nd Sunday of every month through December from 11am to 2:30pm. The restaurant is located at 820 South 47th Street.

www.ngalandtrust.org

Friday, September 17

Save Homeless Animals Group will host the 6th annual Philly SHAG Party at the Sheraton Rittenhouse Square Hotel to benefit local animal shelters and rescues.

www.phillyshag.org



Community Events Calendar

Saturday, September 18

Living Beyond Breast Cancer will host its tenth annual gala, "Spring in September—An Evening in Tuscany."

www.lbbc.org

Thursday, September 23

Japan America Society of Greater Philadelphia will host the 5th annual golf outing at the Buena Vista Country Club in Buena, NJ. The tournament includes prizes and a dinner afterwards.

www.jasgp.org

Wednesday, October 6

International Visitors Council of Philadelphia will host its monthly

"First Wednesday" at the Radisson Plaza Warwick Hotel. Discuss the latest world events and meet leaders in business, government, law, education and the arts from around the world.

www.ivc.org

Sunday, October 17

AIDSWalkPhilly begins and ends in front of the steps of the Philadelphia Museum of Art. There will be the traditional 12K Walk, a popular one-mile Stroller Walk for families with small children and a 10K Run for those who choose to run the walk!

www.aidswalkphilly.org

If you would like a future event published in our newsletter, send an email to jessi@rs-co.com. RS&Co is not responsible for the above referenced events, please contact the organizations listed above directly for more information regarding their events. RS&Co will consider inclusion based on dates and space available and does not guarantee any event to be included in the newsletter.

Inside This Issue:

*College Plans for Every Tax Bracket
Life Insurance*