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Section 529 Plans Keep Getting Better And Better

For parents saving for their children's college education, a Section 529 plan may offer several advantages. Now a new tax law—the Protecting Americans from Tax Hikes (PATH) Act of 2015—enhances those potential 529 benefits.

Section 529 plans, operated by individual states, let families set aside money to cover future education expenses of account beneficiaries. If certain requirements are met, investments in the plan grow without being eroded by current taxes, and distributions to pay "qualified" expenses—which include tuition, fees, books, supplies, equipment, and room and board for full-time students—also aren't taxed.

Now the PATH Act permanently extends a rule treating computers and related equipment as qualifying college expenses. This provision had expired after 2014, but was restored retroactive to 2015 and made permanent

There are two main types of 529s: prepaid tuition plans and college savings plans.

1. Prepaid tuition plans. This type of plan is designed to keep pace with the rising cost of college tuition. Suppose it currently costs $25,000 a year to send a child to a state university. You can spend $25,000 now to buy shares in the plan for an eight-year-old. When the child is ready to go to college in 10 years, the shares you bought will pay for an entire year of tuition—no matter what it costs at that point. (You don't have to make a single big initial deposit to a prepaid plan. Later contributions will be credited according to the costs that prevail at the time.)

A prepaid tuition plan ensures that the money you put in will grow to keep up with rising costs. And returns tend to be far higher than those on most conservative investments. You don't risk losing your principal, and your investment generally is guaranteed by the state.

2. College savings plans. In contrast to a prepaid tuition plan, a college savings plan doesn't guarantee that your returns will keep pace with rising college costs. But these plans have the potential to produce higher returns than a prepaid plan depending on the performance of the investments you choose.

Usually, these 529s offer an asset allocation strategy geared to the current age of beneficiaries or the year when they'll enter school. Such strategies may use more aggressive investments in the early years and switch to more conservative options later.

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What Women Want: An Equal Share Of The Financial Pie

To paraphrase an old advertisement, women have come a long way in recent years, but there's still room for growth.

The glass ceiling for women in the workplace is being raised slowly and married women are becoming more involved in family financial decision-making. However, recent surveys suggest many women still lack confidence when it comes to investment and retirement planning.

According to Hearts & Wallets, a retirement marketing research firm, female spouses in heterosexual marriages still take a backseat to their husbands in retirement planning, with only 43 percent of wives helping formulate those plans. Yet four out of five in this group were approaching retirement age, and women, who tend to outlive men, have a particular need for good planning.

Meanwhile, women tend to be less aggressive than men in the investment arena. A long-term study by Berkeley's Haas School of Business found that men's greater confidence in their investment abilities causes them to trade more often than women. Of course, that's not necessarily an advantage, and women's greater aversion to investment risk may help avoid catastrophic results, especially when the stock market is declining.

Anyone can reap financial rewards through advance planning and portfolio adjustments. That applies to both genders.

Robert J. Pyle, CFP, CFA

5 Ways To Boost Retirement Savings

The federal government recently announced that practically all of the maximum contribution amounts for tax-advantaged retirement plans remain the same for 2016. For example, the most you can defer to a 401(k) plan—without a catch-up contribution if you're 50 or older—is still $18,000, while the IRA contribution limit stays at $5,500. Relatively low inflation is the reason these statutory thresholds didn't budge.

But that doesn't mean you can't increase your saving for retirement this year. Here are five ideas for expanding your retirement nest egg:

1. Go the max. Many people fail to contribute anywhere near the maximum amount allowed for retirement plans. So your first step this year could be to move closer to the 401(k) limits. If you don't have a 401(k) you may be able to contribute up to 25% of compensation or $53,000—whichever is less—to a Simplified Employee Pension (SEP), or $12,500 to a Savings Incentive Match Plan for Employees (SIMPLE) in 2016. Each plan can be supplemented by IRA contributions of up to $5,500.

2. Take time to catch up. The tax law also permits "catch-up contributions" if you're age 50 or over. For a 401(k), the extra amount is $6,000 in 2016, which could boost your total contribution to $24,000. And older IRA contributors can kick in an extra $1,000.

3. Be a matchmaker. Beyond raising your own contributions as much as is possible, also be sure to take full advantage of any matching contributions offered by your employer. Typically, a company might provide a match of 50 cents for every dollar you put into your plan, up to 6% of compensation. In this case, if you were earning $100,000 and contributed $10,000 to the plan, $6,000 of that amount would qualify for an employer match of $3,000.

4. Convert to a Roth. Although the maximum salary for eligibility to contribute to a Roth IRA did rise slightly for 2016, you still may earn too much to qualify. But anyone, regardless of income, can convert assets in a traditional IRA to a Roth. Although you'll owe current tax on the amount you convert, most distributions from a Roth during retirement—and after your account has been in existence for at least five years—will be completely tax-free.

5. Avoid unnecessary penalties. If you violate the rules for early withdrawals from employer-sponsored retirement plans and IRAs, you generally will owe a 10% penalty tax on top of the regular income tax liability. Although there are a few exceptions, this applies to most withdrawals that you make before you reach age 59½. You also can be hit with a 50% penalty for failing to take required minimum distributions after age 70½. These penalties can erode your savings substantially.

These are among the ways to make sure that this year is a good one in terms of making your retirement savings grow. ●

Lock In Early Capital Losses In '16

The early bird gets the worm in tax planning, too. Take the case of the savvy investor who usually waits until the end of the year to harvest capital losses from securities transactions. Although that tried-and-true strategy still makes sense, you often will benefit from an earlier start. In fact, you might look to sell off some losers in your portfolio before the year even hits the midway point.

Start with this basic tax premise: Any capital losses you realize when you sell stocks or other securities or capital assets are used first to offset capital gains you realize during the year. If your losses add up to more than your gains, you then can use the extra amount to offset up to $3,000 of highly taxed ordinary income and carry over any that's left to the next year. With these opportunities beckoning, investors often search for losses to provide these tax benefits.

At the same time, if you have net long-term capital gains for the year (involving transactions of assets you've owned for longer than a year), the maximum tax rate is only 15%, or 20% if you're in the top ordinary income tax bracket. Even better, you may benefit from a 0% rate on long-term gains for income in the two lowest ordinary income tax brackets.

If you're heading into the home stretch of the year and you already have capital gains, you might sell something at a loss and use that to offset those gains, which will be tax-free up to the amount of the losses. This is a particularly attractive strategy if you have short-term gains that otherwise would be taxed at ordinary income rates.

But why wait until the end of the year? There's no reason to sit back and wait for things to unfold if you're holding securities you want to unload anyway. You may as well take the losses during the first half of the year. Then you can capture tax-free capital

Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

gains later on.

Example: In the first quarter of 2016, you acquire a stock that appears poised to take off this year. At the same time, you own two stocks showing losses of $6,500 and $7,500, respectively.

Instead of waiting until year-end, you sell the two losing stocks on July 1 and lock in $14,000 of losses. Say that you're able to sell the other stock at a gain of $12,000 in late December. In this case, your capital gain is completely tax-free and you can use the additional $2,000 loss to offset ordinary income. (Note: These figures are purely hypothetical and not indicative of any particular securities.)

What's more, taking losses early secures your position in the event you are unexpectedly incapacitated or pass away. Again, the early bird catches the worm.

Of course, taxes aren't the only consideration in investment planning, but it makes sense to factor tax consequences into your decisions. ●

When To Use An Installment Sale

Do you own commercial or investment real estate you're planning to sell? If the property has appreciated in value since you bought it, and you've been writing off your initial cost through depreciation deductions, you could owe a hefty tax on the transaction. What's more, you might not be able to find a buyer that can come up with all of the cash—at least not at your asking price.

You may be able, however, to kill two birds with one stone. An installment sale of commercial or investment real estate can let you defer the tax over several years, reducing the overall tax bite. In addition, the buyer can spread out the payments. There are no special conditions; the tax law specifies only that the payments must be made over two or more years.

Except for the effect of having the sale happen gradually, the basic tax rules for real estate transactions continue to apply. If you make a profit, it will be taxed as a capital gain. If you've held the property for more than one year, your long-term capital gain will be taxed at a maximum rate of 15%, or 20% if you're in the top ordinary income tax bracket of 39.6%. You also may be liable for the 3.8% surtax on net investment income.

You generally will owe tax on a portion of your gain in the year of the sale and the remainder in the years during which you receive the installment payments. The taxable portion is based on something called the "gross profit ratio"—your gross profit from the real estate sale divided by the price. Suppose that you sell a commercial building, your gain is $1 million, and the gross profit ratio is 60%. If you receive $250,000 a year, you are taxed on $150,000 (60% of $250,000) of the proceeds annually. Assuming a 20% long-term capital gain tax rate (and excluding any net investment income surtax), your tax each year on the installment sale is $30,000 (20% of $150,000).

Any depreciation you claim on the property must be recaptured as ordinary income to the extent it exceeds the amount allowed under the straight-line depreciation method. However, spreading out the tax over a number of years will take greater advantage of the 15% tax rate on long-term capital gain.

Finally, there's one other potential tax pitfall. If the sale price of your property (other than farm or personal property) exceeds $150,000, you'll have to pay interest on the tax that is deferred to the extent that your outstanding installment obligations exceed $5 million.

While installment sale treatment on your tax return is automatic, you can opt out if that suits your purposes—for example, if your income was otherwise low for the year. In that case, the entire gain is taxable in the year of the sale. But these rules are complicated, so be sure to get expert tax advice about your situation. ●

Section 529 Plans

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You're not obligated to use a Section 529 college savings plan for a college in your state, and you're free to use another state's plan if you like |its features. Keep in mind, though, that in-state plans may offer state income tax deductions or other benefits for residents.

These plans also offer flexibility if an intended beneficiary doesn't go to college or if there's money left over after graduation. In either case, you can switch to a different beneficiary. Typically, a plan will allow one such change a year.

The PATH Act includes a couple of other significant changes in this area. For one thing, it adjusts a rule relating to taxable distributions for *non-qualified* expenses. Under the new law, each such distribution will be taxable based on the amount only in that particular account, rather than in all the Section 529 accounts you've established. In addition, if a Section 529 plan distribution is used to pay for tuition and subsequently is refunded—for example, if your child leaves school—the new law permits you to contribute that amount to another 529 plan within 60 days.

Finally, a Section 529 plan also offers gift-tax advantages. Normally, you can give anyone up to a specified amount—$14,000 in 2016—without owing gift tax. That amount is doubled to $28,000 for joint gifts from a married couple. But with 529s, you can contribute an amount equal to five years' worth of gifts if a proper gift tax return is filed. That means you could put $70,000 in an account for one beneficiary—or $140,000 if you give with your spouse—completely free of gift tax. ●

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