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Study These Six Higher Education Tax Breaks

Paying for college can be daunting, but federal tax rules provide some relief. With enhancements from the Protecting Americans from Tax Hikes (PATH) Act of 2015, you may benefit from one or more of these six tax provisions:

1. Section 529 Plans, available from all 50 states and the District of Columbia, encourage families to set aside savings for future education expenses. Most states set contribution limits at $300,000 or more. Generally, the investment grows without current taxes and distributions to pay for most college expenses — including tuition, fees, books, supplies, equipment, and room and board for full-time students — are completely tax-free.

You can choose a 529 plan from any state, and although college-savers often choose to save in the plan of their home state, you might be better off establishing a plan elsewhere. Still, more than half of the states offer state tax deductions or credits for Section 529 plan contributions by residents. That could be a compelling reason to stay home when choosing a plan.

2. The American Opportunity Tax Credit (AOTC) became a permanent tax break when the PATH Act became law in December 2015. The maximum annual credit is $2,500. You can get separate credits for each qualified student in your family. For example, if you have three kids in school this year, your maximum credit is $7,500. Also, under another recent tax law change, you now can claim the AOTC for up to four years of school for each child, up from two years previously.

However, the AOTC phases out between $80,000 and $90,000 of modified adjusted gross income (MAGI) for single filers and $160,000 to $180,000 for joint filers. Once you exceed the upper limit, you can't claim the AOTC.

3. The Lifetime Learning Credit (LLC) also is a permanent part of the tax code, but the maximum credit of $2,000 applies per taxpayer rather than per student. So even if you have three kids in school at the same time, the maximum credit is still $2,000.

And eligibility for the LLC also phases out, at levels lower than the AOTC. The current range is between $55,000 and $65,000 of MAGI for single filers and from $110,000 to $130,000 for joint filers.

4. Tuition deductions also permit some parents to claim deductions for tuition and related fees paid to colleges and universities. This tax provision, also made permanent by the PATH Act, provides a deduction of either $4,000 or $2,000, depending on MAGI. For single filers, the $4,000 deduction is

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Millennials Want To Save More And Resist Impulse Purchases

According to a new survey by the American Institute of Certified Public Accountants (AICPA), more than one-third of millennials—the generation born between 1980 and 2000—say that saving money is their top goal for 2016.

In the survey, more than a third ranked saving money ahead of living a healthy life—cited by one in five—repaying debts (19%), and losing weight (14%). At the same time, two out of three participants said impulse buying was a major impediment to saving.

Older millennials, those born in the '80s, already are established in careers, and 26% of those in that group say they are earmarking savings for emergencies, 22% are saving for retirement, and 15% are setting aside money to start a family. This group also focused on saving for large purchases, such as vacations (36%), houses (27%), cars (26%), home improvements (20%), and weddings (8%).

Other obstacles to saving cited by all survey participants included low salaries (84%), costly bills (81%), paying down debt (79%), and lacking a personal budget (62%). Also, almost half say they fail to pay credit card bills in full each month or have had to borrow money from friends or family.

It's encouraging that saving has become a top priority, but there's still a long way to go.

Robert J. Pyle, CFP, CFA

Do Robo Advisors Have Glitches?

Robots already do serious work in manufacturing, construction, and increasing numbers of other fields. And now, "robo advisors" are invading financial services. Within the next decade, these automated portfolio managers are expected to be handling trillions of dollars in assets.

But are robo advisors an upgrade over their human counterparts? The jury is still out on that question so let's take a closer look.

How do robo advisors work? It's not like R2-D2 sets up a face-to-face meeting at his office and devises a financial plan for your future. Instead, you input critical data—including your age, risk tolerance, assets, and goals—into a software package, which then spits out an investment "asset allocation" based on an algorithm. So, the technology does all of the grunt work.

Typically, the allocation will rely heavily on exchanged-traded funds (ETFs) holding a mix of domestic and international stocks and bonds. Although robo advisors vary, normally the algorithms that determine which ETFs to hold are based on modern portfolio theory or a version of it.

Although you may be attracted by the idea of a portfolio automatically tailored to your needs, robo advisors have certain shortcomings. For one thing, they haven't been sufficiently tested during a range of market conditions such as the sustained downturn that began in 2008-2009.

In addition, there's the fact that a faceless, mechanical robo advisor won't react in the same way as a human advisor. Who is responsible if your investments go south? You can't consult with the tech geeks who provided the coding for the software (nor are they likely to know much about managing your investments). In some cases, there is an 800 number you can call, but the software still drives the final decisions.

Furthermore, a robo advisor operates in a virtual vacuum. It doesn't have a complete financial picture or know you personally. If there's a call center for a particular robo advisor, you'll likely speak to a different person every time you call. In other words, the methodology behind these technological marvels won't take into account all of the factors influencing your life.

Finally, proponents of robo advisors claim that they are less expensive than human advisors, but that's not always the case. In any event, you may find that the services of a trusted personal advisor are well worth the cost in the long run. Despite the latest technological advancements, humans can still play a valuable role in guiding your investment decisions. ●

Social Security Options Remain

Recent federal legislation ended several strategies that could help you maximize Social Security retirement benefits. But with some advance planning, you still can take advantage of a few things the new law didn't change.

Under the Bipartisan Budget Act of 2015, three strategies have been eliminated:

1. File and suspend: A higher-earning spouse could apply for retirement benefits at full retirement age, which is age 66 for most baby boomers. Then the same spouse suspended the benefits, usually until age 70, when the amount of monthly payments from the government would be higher. In the meantime, the lower-earning spouse claimed spousal benefits, which would be larger than the other spouse would have received on his or her own.

This strategy disappeared on April 29, 2016 (six months from the date the new law was enacted). If you suspend benefits now, not only will you not receive benefits, but your spouse also won't be entitled to the higher spousal benefits. But if you turned age 62 before 2016 and you already chose to "file and suspend," you still qualify.

2. Restricted application: A spouse who was eligible for benefits either on his or her own or as a spouse could file a restricted application for spousal benefits only. Then that spouse waited—typically, until age 70—to apply for benefits based on his or her own earnings record. That entitled the spouse to higher Social Security payments.

The new law eliminates the restricted application option for those who turn age 62 after 2015. You now must claim all of your benefits when you file, and the benefits will be based on your own earnings history or the spousal benefit, whichever is greater.

3. Lump-sum payment strategy: Previously, if you used the file-and-

Five Big Tax Penalties To Avoid At All Costs

Taxes are a necessary evil, but you don't want to make matters worse by paying avoidable federal tax penalties. Here are five to avoid:

1. Not taking required minimum distributions. This is the granddaddy of tax penalties. After you've reached age 70½, you must begin taking annual "required minimum distributions" (RMDs) from your tax-advantaged retirement plans (unless you're still working) and from traditional IRAs. (For the year you turn 70½, you can postpone the payout until April 1 of the following year, but that will require you to take two withdrawals in the same calendar year.) The RMD is based on your age—entered into a life expectancy table—and your account balances at the end of the year in which you turned 70½.

Failing to take RMDs can result in a 50% penalty tax on the amount that should have been withdrawn (on top of the regular income tax you owe on the distribution). Unless you can show reasonable cause for missing an RMD, you'll be stuck with this penalty.

2. Making early withdrawals. On the opposite end of the spectrum, you may be penalized for withdrawing funds from your qualified plans and IRAs too soon. Generally, a 10% penalty tax applies, in addition to the regular tax you owe on the distribution, unless you've already reached age 59½ or the payout is because of death or disability. However, the tax law provides several exceptions to the early withdrawal penalty, such as payments used for deductible medical expenses.

Another key exception is available for substantially equal periodic payments (SEPPs). If you take SEPPs over your life expectancy, or over the life expectancy of you and a beneficiary or beneficiaries, there's no penalty if those payments continue for at least five years or until you reach age 59½, whichever is longer.

3. Not reporting income from foreign accounts. Your tax return may not be the only document you're required to file each year. If you have financial interests in foreign banks totaling more than $10,000 at any time during the year, you must report the account information to the IRS using the FBAR form (short for Report of Foreign Bank and Financial Accounts).

FBARs have to be filed by June 30 of the year following the year of the foreign account activities, and no extensions are allowed. (Beginning with the 2016 tax year, the FBAR deadline is moved up to April 15 and a six-month extension is available.) The penalty for failing to make the filing is severe—a fine of up to $250,000 and a prison sentence of up to five years can be assessed for a willful violation. Other penalties may be imposed for providing false information.

4. Not having health insurance. Under the Affordable Care Act (ACA), also known as Obamacare, most people must have health insurance or must pay a "shared responsibility payment." For 2016, the amount of that payment is equal to the greater of 2.5% of your annual household income or $695 per person for the year ($347.50 per child under 18), up to a maximum of $2,085 per family.

This penalty kicks in when you, your spouse, or a dependent had gone without coverage for more than three months, with certain exceptions. Consult with your tax and financial advisors to see whether you qualify for a premium tax credit or an exception to the penalty.

5. Missing the deadline for your tax return. Generally, if you don't file your tax return on time, or if you fail to pay the tax you owe by the tax return due date (even when you receive an extension for filing your return), you'll be assessed a penalty.

The penalty for filing late is 5% of the unpaid taxes for each month or part of a month that a tax return is late. It begins accruing after the tax-filing due date and can't exceed 25% of your unpaid taxes. If you don't pay your taxes by the tax deadline, you normally face a penalty equal to 0.5% of the unpaid taxes. This applies for each month or part of a month after the due date and starts accruing the day after the tax-filing due date.

Again, the six-month filing extension, which is automatic if you request it, is not an extension for *paying* your taxes. You still must make a reasonable estimate and pay that amount. ●

suspend strategy at full retirement age, you could request that all suspended payments be paid in a single lump sum at a later date, up until age 70. This lump-sum option also is no longer allowed after April 29, 2016.

Despite these changes, Social Security rules still provide plenty of flexibility. For example, a lower-earning spouse can continue to base Social Security benefits on the work history of the higher-earning spouse if that produces greater benefits. Similarly, a surviving spouse still may be in line for increased benefits.

The 2015 law doesn't affect the rules for "early" or "late" retirement, either.

You're eligible for Social Security retirement benefits as early as age 62, but this choice results in reduced monthly benefits. Waiting instead to apply for benefits after your full retirement age results in higher monthly payouts—and the longer you wait, until you reach age 70, the more you may receive. ●

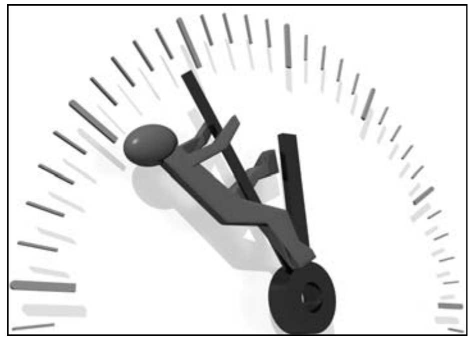
Market Timing Is An Inexact Science

The Standard & Poor's 500 (S&P 500), a leading stock market benchmark, was poised to record one of the worst Januarys in history before a late recovery occurred. Due in part to plunging oil prices and concerns over the global economy, stocks were slammed early in 2016. At one point, the S&P 500 was down 11%, before the index rose 2.48% on January 29, leaving it with a 5% decline for the month.

Clearly, this was more volatility than usual, which was both good news and bad news for market timers.

Market timing is the practice of selling stocks and mutual fund shares ahead of projected declines and buying back those investments when the investor expects the stock market to climb. It's a tempting proposition, and when it works, it can reduce losses and position a portfolio for future gains. However, it usually doesn't work, and getting the timing wrong can result in big losses, from selling shares that would have recovered or from being out of the market when prices rebound.

Market timing appeals to investors who think it can bring them the best of all possible worlds—letting them buy low and sell high. But it's not for inexperienced investors, and even those who know what they're doing and who have all of the resources to help them make intelligent, well-informed decisions are just as likely to fail as they are to succeed.



Not only is the stock market volatile, it is unpredictable. Unexpected events can have an impact, either positive or negative, on a company, industry, or sector. Market timers think they know better than others what's coming next. Although they may guess right sometimes, they're bound to be wrong, too. To compound the problem, those who are successful once may start to think they are invincible. Of course, they're not.

But just because market timing is generally a loser's game doesn't mean you always have to sit idly by while markets fluctuate. Tactical adjustments may be in order depending on what's in your portfolio, what your goals are, and your investing timetable. However, by investing for the long term and periodically rebalancing your portfolio, you can focus on specific objectives in a consistent manner. This could be especially important following a period of extreme volatility such as the one the markets experienced early this year. Working toward your long-term goals also takes emotions out of the investing equation.

When you engage in market timing, you effectively have to be right twice—getting out of the market at the right time, before a downturn, and then getting back in before the market rallies. That's much less likely to pay off than staying in the market over the long haul—which also happens to be a lot easier on the nerves. ●

Higher Education Tax Breaks

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available for a MAGI up to $65,000 and $2,000 between $65,000 and $80,000. Joint filers can deduct $4,000 for a MAGI up to $130,000 and $2,000 if a MAGI is between $130,000 and $160,000. Above those limits you don't get a deduction. Taxpayers may claim either higher education credit – the AOTC or the LLC – or the tuition deduction, but not more than one of these three tax breaks.

5. Student loan interest deductions allow you to deduct the annual interest you pay on a student loan, up to a maximum of $2,500. This deduction applies only to the taxpayer who's actually repaying the loan. And the deduction for student loan interest is phased out based between $65,800 and $80,000 of MAGI for single filers and between $130,000 and $160,000 of MAGI for joint filers.

6. Coverdell Education Savings Accounts (CESAs) allow annual contributions of up to $2,000. This is on the low side, especially when compared to Section 529 plans that let you make six-figure contributions. And the ability to put money into a CESA in the first place is phased out between $95,000 and $115,000 of MAGI for single filers and between $190,000 and $220,000 of MAGI for joint filers. But if you qualify, these accounts, too, shield you from current taxes on earnings and you can withdraw money tax-free to pay for tuition and fees, room and board, uniforms, transportation, books and supplies, academic tutoring, and computers.

One bonus with a CESA: those who qualify to contribute to the accounts can use the money to cover costs from kindergarten through 12th grade as well as for college.

These tax breaks may offer parents help in saving for the high cost of higher education. We can help you sort through your options and navigate the arcane rules to find the best path in your situation. ●

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