HONECK · O'TOOLE

...where people count

reveNEWS

Ideas to help small businesses and individuals maximize income while minimizing taxes.

3rd Quarter 2024

YOUR EDUCATION FUNDING OPTIONS:

Once Complicated, Now Simple

If you're trying to figure out the best college savings plan for a child, you may already know that the options are somewhat overwhelming. In our Q2 ReveNEWS issue — found at *https://www.honeckotoole.com/newsletters/* — we explained 529 college savings plans in detail.

Now it's time to explore other options, including the UTMA/UGMA, IRAs and Roth IRAs, and Coverdell ESA. Each option offers pros and cons when it comes to funding requirements and limitations, tax implications, the FAFSA (Free Application for Federal Student Aid), and eligibility.

You'll find a helpful comparison chart on page 2. But first, here's a quick overview.

UTMA/UGMA

Since minor children are not legally allowed to own money or property, many states have enacted the Uniform Transfers to Minors Act (UTMA) or the Uniform Gifts to Minors Act (UGMA). Both are types of custodial accounts you can establish for a child. You'll manage it as custodian until the child is of age (18 or 21 depending on the state). The custodian has access to and control of the account, but the minor child is the owner. As the owner, the minor child is responsible for reporting any income earned from the account on their individual income tax return. These accounts can be used for anything, including educational expenses, once the minor is of age. An UTMA account can hold any form of asset/property, including real estate or other real property. In contrast, an UGMA account is limited to financial assets (cash, stocks, bonds, mutual funds, and other assets).

IRAs and Roth IRAs

You may withdraw funds from Individual Retirement Accounts (IRAs) to pay for post-secondary education expenses. The 10% early distribution penalty does not apply to the withdrawn amount used to pay qualified education expenses, but depending on the type of IRA,

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2024 TAXES: WHERE DO YOU STAND?

If you made significant changes in your life this year (bought property, sold property, got a job, lost a job, changed jobs, had a child, changed your marital status, moved, started a business, sold stock, retired, or any other life changes) or you plan to — we can help you look at how this may affect your financial picture and your 2024 taxes.

The sooner you find out, the better, yes? Schedule an appointment with us now to discuss changes that may benefit you in tax year 2024: **207-774-0882** or ***info@honeckotoole.com***

Your Honeck O'Toole Team

DUE DATE REMINDERS: EXTENDED TAX FILING

September 30: Extended due date for calendar year Trusts and calendar year Estates

October 15: Extended due date for Individual Tax Returns & calendar year C Corporations

November 15: Extended due date for calendar year Tax Exempt Organizations

Got a letter from the IRS? Don't panic!
We can help if you're not sure what to do next. Contact us for assistance: **207-774-0882** or ***info@honeckotoole.com***

the amount may still be subject to ordinary income tax. The types of IRAs you can withdraw from are a traditional IRA, SEP-IRA, SIMPLE-IRA, Roth IRA, and a Roth IRA for Kids (which is similar to the UTMA/UGMA accounts mentioned above — custodian funds and sets up the account for a minor child who then takes control of the account once of age).

Coverdell ESA (AKA Educational IRA)

You may establish a Coverdell Education Savings Account (ESA), previously known as an educational IRA, for specifically paying qualified education expenses. Withdrawals are tax free when paying for qualified education expenses, including elementary and secondary education expenses (unlike a 529 plan, an ESA is not subject to the $10,000 limit for undergraduate expenses), and for contributions to qualified tuition programs (529 plans) for the same beneficiary. You should consider a rollover contribution from your Coverdell ESA to a 529 plan when the beneficiary turns 18 (at that age contributions are no longer allowed) or before age 30 (the age by which all funds must be spent).

COMPARE YOUR EDUCATION FUNDING OPTIONS

Use this chart to consider the best choice for you and the student you're supporting based on your tax goals and your hopes for FAFSA/financial aid. NOTE: these are general guidelines. Please consult with your fund provider or with our office for additional details.

	529 Plan	UGMA/UTMA
Maximum Contribution	$90,000 per beneficiary in 1st year of 5-year period to avoid gift tax ($180,000 from married couples)	$18,000 per beneficiary per year to avoid gift tax consequences ($36,000 from married couples)
Income Limits to Contribution	None	None
Investment/Funding Options	Varies per plan depending on 529 provider, or tuition units guaranteed to match tuition inflation	UGMA: cash, bank accounts, stocks, bonds, mutual funds; UTMA: above plus real estate, LPs, art, patents, royalties
Tax Deductible	No federal deduction, state tax varies	None
FAFSA/Financial Aid Impact	Aid reduced 3%-5.6% if parent owns account	Aid reduced by 20%
Who Controls Withdrawals	Account owner/participant	Transfers to child at 18+
Qualified Withdrawals	• U.S. or in-state accredited college/ postsecondary programs (+ some foreign locations) • K-12 Education (limited to $10,000) • $10,000 for student loan payments • Roth Rollover ($7,000 per year up to $35,000)	Limited to expenses for child's benefit (not for parents' expenses)
Tax on Qualified Withdrawals	Tax Free	Taxable - Kiddie Tax <Age 19 (or student aged 19-23), investment income over $2,600 taxed at parent's federal tax rate
Tax on Nonqualified Withdrawals	Fed/state: distributed earnings (pro-rata) taxed at account owner's or beneficiary's rate depending on plan provider	
Penalties for Nonqualified Withdrawals	10% penalty on earnings	None

DISCLAIMER: *Any accounting, business, or tax advice contained in this communication are not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.*

IRA/Roth IRA	Coverdell ESA
The lesser of $7,000 or 100% of earned income plus $1,000 for ages 50+	$2,000 per year per beneficiary; contributions stop when child turns 18
Must have earned income to contribute – limits vary depending on if covered by an employer retirement plan	Single: $95,000-$110,000 Married: $190,000-$220,000
Wide range of securities (limit may be set by provider)	Wide range of securities (limit may be set by provider)
Credit for Qualified Retirement Savings Contribution (Saver's Tax Credit) if requirements met	None
Taxable withdrawal amount may impact aid	Aid reduced 3%-5.6% if parent owns account
Account owner/participant	Parent or legal guardian until child is of age
• U.S. accredited college/ • Postsecondary programs (+ some foreign locations)	• U.S. accredited college • Postsecondary programs (+ some foreign locations) • K-12 Education • Payments to Qualified Tuition Program (529 plans)
Tax-deferred - Tax-free only if 5-year req. met & qualified withdrawal (otherwise taxable at account owner's rate)	Tax Free Distributed earnings (pro-rata) taxed at account owner's rate
10% penalty on earnings and any conversion amounts withdrawn unless exception applies	10% penalty on earnings

ANOTHER EDUCATION FUNDING OPTION: U.S. Series EE or Series I Savings Bonds

Bonds are a low-risk way to save for education, and the interest earned on the U.S. Series EE or Series I bonds issued after 1989 is nontaxable when cashed out and used toward qualified education expenses for yourself, your spouse, or dependents.

The differences between the two types of bonds are the interest rates and rate changes.

- From May 1, 2024, to October 31, 2024, a Series I bond has a higher interest rate (4.28%) than a Series EE bond (2.75%). However, for a Series I bond, the rate is a combination of a fixed rate and an inflation rate which is calculated in November and May.
- While today's rate for a Series I bond may be higher than Series EE's, it's possible to be lower in the future.
- For a Series EE bond, the rate stays the same for at least 20 years and may change after that for the last 10 years of the bond's duration. Currently, on TreasuryDirect.gov (*https://bit.ly/4g21DbK*), the government is guaranteeing that the Series EE bond will double in value in 20 years. With that guarantee, it essentially means the interest rate on a Series EE bond is 5%.

There are a few limitations on Series EE or Series I bonds.

- First, for the interest to be excluded (when used towards education), the owner must have been at least 24 years old when the bond was purchased.
- Second, you are limited on the amount of bonds you can buy each year. The limit is $10,000 per Social Security Number. As an example, you could buy two in one year if one is registered to your SSN and the other to your spouse's SSN.
- Finally, for the interest income exclusion to apply, there are some income limitations to consider. The exclusion is eliminated if income exceeds $185,000 for a married filing jointly couple ($90,000 for single, head of household, or married filing separate).

As always, if you have questions about bonds, contact us for personal guidance.

CLIENT PROFILE

PAM FOSTER

Maine House Sitter and Pet Sitter

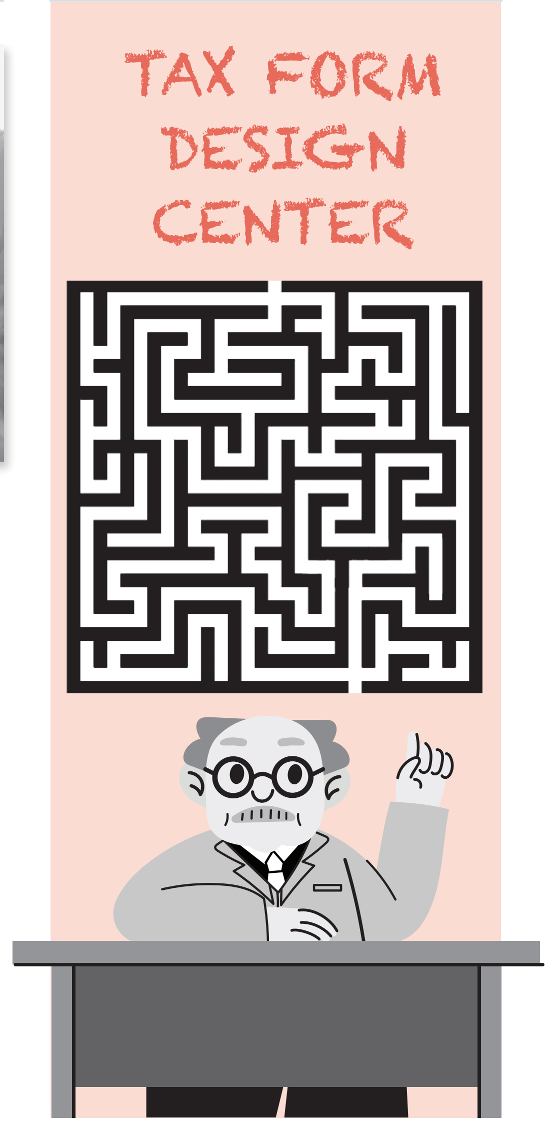
Pam Foster with a fur baby

Since 1995, Pam Foster has been our ReveNEWS and website writer, and our client of course. But there's another side to Pam. She loves pets! She owns PetCopywriter.com, writing mainly for the pet/veterinary world based on experience with IDEXX and other companies. And in her day job, she trains other writers how to become go-to freelance writers in niche markets.

Since her work is 100% remote, she can work from anywhere. Which is why she just launched Maine House Sitter and Pet Sitter, offering house sitting, pet sitting, and home organization services in Greater Portland and beyond. *"People planning to be away are looking for trusted care and security for their homes and pets. I had provided these services for friends and really enjoyed it, so why not make a business out of it?"*

Since launching in August 2024, Pam has booked pet-sits in Belfast, Rockport, and Cape Elizabeth so far. She noted, *"It's fun to make sure pets are fed, walked, and loved while also keeping them safe and happy in their own homes. Especially senior pets needing medications. Plus I bring in the mail, water the plants, and keep things clean and secure."* Pam also finds joy in decluttering and organizing homes. She said, *"It's a blast to see my clients' faces when they take in the transformation."* To explore Pam's services, visit *www.Mainehousesitter.com*.

PUZZLE



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Call for Assistance Anytime! We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your money.

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