

## College, Here We Come! Two Ways to Make Your Kids' Education Affordable

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If you're like millions of American families, the college funds you have salted away in 529 plans or other accounts have suffered a 40 percent loss since August, leaving you to wonder how to pay for your kids' educations. Financial aid? College tax credits? Forget them; in the government's eyes, you have too much money already. It is not an easy task these days. With the stock market going up and down like a roller coaster, some plans may never build enough. To make the job even harder, college costs keep climbing by almost 10 percent annually.

### Put Them on Your Payroll

So, how can you fund your kids' education? One simple way, which I've discussed in the past, is to put them on your payroll. You can pay a child up to \$5,400 this year and take a tax deduction as a business expense. By the way, that amount keeps indexing up every year so when you are ready, check to see what it is then. They, in turn, can earn up to that amount and do not have to pay any income taxes on it.

The key criteria are that they must have a legitimate job and the pay they are receiving must be "reasonable." In other words, don't put a 3-year-old on your payroll for \$30,000! Based on a case back in the 1960s, I would not put a child on the payroll until they are at least age 8, unless you are using them in advertising and promotion. In that case, you can do it at a younger age. Make sure you dot every "i", and cross every "t." Do it right so you don't give the IRS a reason to come visit you.

### Buy Them a Home

Here is another idea for you to consider. If you purchased a home near a university and rented it to some students, the asset would provide rent-free housing for your kids and give them extra income. Now your purchase is eligible for a new federal tax credit available to first-time homeowners. Married couples are eligible only if they earn less than \$175,000, but you probably already own a home, and hopefully your income exceeds \$175,000. Your kids, however, are single, have never owned a home, and earn much less.

As part of the stimulus bill passed last year, the allowable credit for first-home purchases between Jan. 1 and Nov. 30 is 10 percent of the first \$80,000 of the home's purchase price. The fact that you do not qualify does not disqualify your kids. Structure the purchase so your child owns one-third of the property. They will co-sign the mortgage with you and can take the full credit based upon their portion of the price. If their share equals \$80,000, they get the full tax credit of \$8,000.

By law, a first-time homeowner is someone who has not owned a home for three years prior to the purchase of the qualifying residence. The property acquired must become the principal residence of the owner for at least three years. The law allows you to take the credit for the 2009 tax year. Unlike prior home credits, the new stimulus law makes the credit refundable, meaning that even if you have no tax obligation, you get a check from the government for the maximum credit to which

you are entitled.

If you already filed your 2009 return, you can claim the credit by filing Form 1040X. When filing, you must also file Form 5405 and enter the credit on line 69, page 2 of your child's return. A Form 1040, not the short forms 1040A or 1040EZ, is required to take the credit. The credit is based on the whole or a portion of the purchase price and the ownership by the qualifying person, regardless of the amount financed. Your child does not have to come up with their share of the purchase price. Even though you cannot gift the real estate to the child, you can gift your child's share of the down payment and structure it to avoid gift taxes.

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