

Using Children's IRAs to Pay for College

If your child has earned income (maybe from working in your business), you may want to consider establishing an IRA for your child. The IRA funds can, in turn, be used to help pay your child's college expenses. When your child withdraws money from an IRA, tax law imposes taxes on the withdrawals, but no 10 percent penalty applies when the money is used to pay for qualified higher education expenses.

The big hurdle to avoid is the kiddie tax. IRA withdrawals are subject to the kiddie tax rules. Under these rules, an under-age-24-student pays taxes on unearned income at the parents' high tax rate when the child's unearned income is more than \$2,100 and the child's earned income is not more than half of his or her support. This makes the kiddie tax a true destruction force when it comes to saving for college. Your children need your help to avoid the dreaded kiddie tax.

Most minor children do not earn enough to need the tax deduction that the traditional IRA offers. This makes the Roth IRA a great vehicle for the working child's college planning because the withdrawals of contributions are free of both penalties and taxes when used for qualified higher education.

If you have children who fit this profile, make sure your children start making their Roth IRA contributions at a young age and earn a good rate of return on the investments.

The Roth IRA habitually proves superior for the child's college funding when compared with the traditional IRA. With the traditional IRA, the child gets a deduction while in a low tax bracket but, because of the kiddie tax, pays

taxes in the parents' high tax bracket upon withdrawal for college. This is a bad deal.

Another point of consideration is that the IRA and other retirement assets of both the parents and the children are not counted as assets available for education on the FAFSA or CSS profile applications for financial aid.

Lock Down Vehicle Deductions with a Home Office

The IRS gives you two possible strategies for turning otherwise personal mileage into business mileage:

1. Going to a temporary work location
2. Establishing an office in the home as a principal office

The temporary work location strategy contains some real unknowns, such as what is technically considered a temporary work location and whether the work performed at that location is for one year or less.

These unknowns make it difficult or impossible to use your facts and circumstances to produce your desired business-mileage results. The easy solution is the office in the home as a principal office.

The first reason this type of home office is an easy solution is that the rules are crystal clear, making

compliance easy. The second reason is that with this office you know that all trips from home for this trade or business are business trips, including the trip from your home to your regular office outside the home.

Create Cash by Using Antiques in Your Business

Let's say you narrowed the purchase of your business desk to either an antique or a regular desk. Each desk sells for \$5,000. Which desk gives you the best possible business result? The answer is the antique. The reason is that antiques often appreciate in value. When it comes time to sell that desk, instead of getting \$500, you may be able to pocket \$15,000.

But it gets even better thanks to depreciation. The three-step process to get the biggest bang for your buck is (1) buy low, (2) depreciate to zero, and (3) sell high.

How many business assets have you bought and used in your business that have gone up in value? If you are like most businesspeople, the answer to this question is "none" or "very few." In fact, you may not have considered antiques at all.

But now that you know their business potential, give antiques a serious look. With antiques, you can get the best of all worlds:

- beautiful assets you use in your business,
- assets you can depreciate and/or Section 179 expense against your business income, and
- assets that can increase in value.

If you were to buy antiques for your business today, you could expense up to \$500,000 of qualifying costs using Section 179 expensing. This is a huge deduction that can offset your taxable income.

Update: 2018 Health Insurance for S Corporation Owners

S corporations continue to enjoy good news in 2018 when it comes to health insurance, and this also applies to 2017 taxes.

You first have to thank the 21st Century Cures Act for:

- Reinstating and extending IRS Notice 2015-17 to eliminate the \$100-a-day penalty
- Creating the qualified small employer health reimbursement account (QSEHRA) that works well if there are employees in the corporation

The good news is, the old rules still apply as we write this, and we don't expect any changes in 2017 or 2018. Under these rules, the S corporation first establishes a health insurance plan for the owner in one of two ways:

- **Choice 1.** The S corporation makes the premium payments for the accident and health insurance policy covering the owner-employee who has more than 2 percent ownership (and his or her spouse or dependents, if applicable).
- **Choice 2.** The owner-employee makes the premium payments to the insurance company and furnishes proof of the premium payments to the S corporation, which in turn reimburses the owner-employee for the premium payments.

This is Step 1—getting the cost of the insurance on the S corporation's books.

In Step 2, the S corporation has to include the health insurance premiums on the owner-employee's W-2 form. The income is not subject to payroll taxes (Social Security and Medicare).

In Step 3, the owner-employee then claims the health insurance deduction on page 1 of Form 1040, providing he or she otherwise qualifies for the page 1 deduction.