

Maximize Education and Savings Credits

It's that time of the year when parents usually wrestle with canceled checks, old receipts, and monthly statements from banks, credit card companies, and mortgage brokers. This arduous task of settling every possible payment is done to lower federal income taxes. As a parent or guardian, you should be aware of the huge opportunities available to recover as many tax dollars as possible.

For parents who wish to maximize their child's education credits and savings credits, below are different tax-advantaged plans worth trying.

1. Educational IRA or Coverdell Education Savings Accounts

Although contributions are not tax-deductible, the funds raised can grow tax-free if the earnings are used to cover college costs for both secondary and elementary school education. This also applies to both parochial and private schools. It is also worth noting that up to \$2,000 can be raised in a beneficiary account each year.

2. State College Savings Plans

State College Savings Plans, also referred to as 529 plans, are tuition plans that help parents save cash tax-free after clearing college fees. There are two types: the prepaid tuition plan, which covers all tuition expenses though it's limited to mandatory fees, and the college savings plan, which covers board, room, and books, including tuition fee. Although funds are not deductible on federal returns, many states allow citizens to deduct contributions on state proceeds.

3. Using Revocable and Irrevocable Trusts for College Costs

Many times, moving high-earning assets to a lower-taxed trust or a person's beneficiaries allows the principal to grow faster than where it's being taxed at the expense of the parent. Another benefit is that sometimes the donors usually determine the conditions under which the principal should be used. And since the beneficiary student will be paying taxes after getting employed, he or she can continue enjoying qualified deductions and credits for college during their college years.

Trying to navigate the tax code is sometimes a tedious and frustrating affair. The different tax-advantaged plans provided above can help you easily maneuver all the stress involved and give you peace of mind. Talk to one of our experienced tax advisors today to find out how you can minimize your tax liability.