



# Axial Financial Group

Centered on You.

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Dear Clients:  
As you know, we have recently changed our company name from MLM Financial Group to Axial Financial Group.

**Why Axial Financial Group?**  
Axial is defined as the forming of an axis. One definition of an axis is: an alliance of powers to promote mutual interests. An axis is typically located in the center. At Axial Financial Group, that is where we want you to think of us; at the center of your financial life.

At Axial Financial Group, we take an integrated approach to wealth management. Driven by a deep understanding of your needs and goals, we offer a comprehensive array of financial services, and ensure complete coordination of all aspects of accumulating, preserving and distributing assets. Axial's professionals work as a unified team, at the core of your financial success.

Although our name is different, all else will remain the same. We look forward to providing our same services under our new moniker.

**Happy New Year!**

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## "Kiddie Tax" Rules: The College Years



Special rules can apply when your child has unearned income. These "kiddie tax" rules may tax a portion of your child's unearned income at

your (presumably higher) marginal tax rate. Legislation signed into law in May expands the potential reach of the kiddie tax rules to college-aged children, prompting many parents to rethink gifting strategies.

### Kiddie tax basics

Generally, the kiddie tax rules apply when a child has unearned income exceeding \$1,700 (2007 figure). What's unearned income? It's income other than wages, salary, professional fees, or any other compensation for services. Interest and investment earnings are considered unearned income, as is taxable gain that results from the sale of an asset.

Prior to the Small Business and Work Opportunity Tax Act of 2007, the kiddie tax rules applied to children under the age of 18. Beginning in 2008, however, the new legislation expands the kiddie tax rules to apply to children who are under age 19, and to full-time students under age 24. There's an exception carved out for any child who earns more than one-half of his or her own support.

### *Deja vu*

*This is the second time in two years that the kiddie tax rules have been expanded. Last year's Tax Increase Prevention and Reconciliation Act raised the applicable kiddie tax age from under age 14 to under age 18.*

### Why the change?

The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the tax rate on long-term capital gains and qualifying dividends.

Specifically, the act established a 15% tax rate for individuals in the higher tax brackets and a 5% rate for individuals in the bottom two tax brackets. Even more significant is that, beginning in 2008, the tax rate on long-term capital gains and qualifying dividends drops to zero for individuals in the lowest two tax brackets (this zero tax rate remains effective for tax years through 2010).

The zero tax rate applicable to individuals in the lower tax brackets presented a real planning opportunity: transfer appreciated investment assets to your child attending college. Since your child would likely be in the lower two tax brackets, he or she could then sell the assets in the year he or she turned 18, and use the resulting proceeds--tax free--to pay college expenses.

### Impact of the new legislation

By expanding the kiddie tax rules to include full-time students under age 24, the Small Business and Work Opportunity Tax Act of 2007 eliminates or greatly limits this planning opportunity for most families. Starting next year, if your child is a full-time student (who does not earn more than one-half of his or her own support), the kiddie tax rules will kick in if your child sells an investment asset before the year in which he or she reaches age 24. The resulting income--at least the portion that exceeds \$1,700 with an adjustment for inflation--will be taxed at your (presumably higher) tax rate, eliminating most or all of any potential tax savings.

### A final word

The new rules aren't effective until 2008 for most people. So, if you've already transferred investments to a child, or intend to do so, you have a limited window to operate under the old rules. If you have questions, be sure to discuss your situation with a tax professional before the end of the year.





**What's a qualified education expense?**

*In the context of 529 plans, it's payment for tuition, fees, books, supplies, equipment, and room and board. However, room and board qualifies only if the student is enrolled at least half time, and computers count only if the college requires (and not just recommends) one to attend.*



**Important note**

*Before investing in a 529 plan, you should consider the investment objectives, risks, charges, and expenses associated with such plans. More information about specific 529 plans is available in each issuer's official offering statement, which should be read carefully before investing.*

**Taxation of 529 Plans**

Since their introduction over a decade ago, 529 plans have become to college savings what 401(k) plans are to retirement savings--an indispensable tool for helping you amass money for your child's or grandchild's college education. Yet it wasn't until 2006, with the passage of the Pension Protection Act, that the most important federal tax benefit relating to 529 plans--tax-free qualified withdrawals--became permanent. This article takes a look at the overall tax treatment of 529 plans.

**Federal tax treatment**

**Income tax**--The federal income tax treatment of 529 plans is straightforward. There is no income tax deduction for contributions, but contributions to a 529 plan (prepaid tuition plan or college savings plan) grow tax deferred, which means you don't pay taxes on the earnings (if any) each year. And, in 2006, withdrawals used to pay qualified education expenses (called qualified withdrawals) were made permanently tax free--a huge tax advantage, considering the large sums of money that all 529 plans accept.

However, if you have to withdraw money from your 529 plan for reasons other than qualified education expenses (for medical, housing, or emergency purposes, for example), you'll face a double consequence--the earnings portion of the withdrawal will be taxed at the marginal tax rate of the recipient (either the account owner or the beneficiary) and be subject to an additional 10% penalty.

**Gift tax**--Contributions to a 529 plan are considered "present interest gifts" that qualify for the annual gift tax exclusion, currently \$12,000 per recipient per year. So, annual contributions of less than this amount won't trigger gift tax. And there's a favorable twist: Under special rules unique to 529 plans, you can make a lump-sum contribution up to \$60,000, elect to spread the gift evenly over five years (effectively making the gift a series of smaller gifts each \$12,000 or less), and completely avoid gift tax, provided no other gifts are made to the same beneficiary during the five-year period.

This feature has made 529 plans a popular tool for estate planning purposes, particularly for grandparents. That's because a married couple can make a lump-sum gift to a 529 plan of up to \$120,000 (\$60,000 from each spouse), elect to spread the gift over five years, and avoid gift tax--all while removing

the money from their estate for estate tax purposes. Plus, if one member of the couple also happens to be the account owner of the 529 plan, they'll have the added bonus of being able to retain control over their money.

**State tax treatment**

**Income tax**--Unlike the federal government, 31 states offer an income tax deduction (typically capped at a certain amount) for 529 plan contributions--Arizona (starting in 2008), Arkansas, Colorado, Connecticut, Georgia, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Virginia, West Virginia, and Wisconsin. Kansas, Maine, and Pennsylvania allow a deduction for contributions to any 529 plan; all other states require that the contribution be made to the in-state plan.

As for tax-free qualified withdrawals, all states follow the federal government and offer this tax benefit (except for the nine states that have no income tax). But one state, Alabama, requires that the withdrawal be made from an in-state 529 plan.

Regarding nonqualified withdrawals--those made for purposes other than qualified education expenses--state laws vary, so consult a tax professional who is familiar with the laws of your state. You may owe income tax on the withdrawal. Also, at one time, before the 10% federal penalty was imposed, states levied their own penalties. If a state's penalty isn't officially "off the books," you might be subject to a state penalty too. Finally, gift tax rules differ from state to state, so make sure you understand your state's rules before making a large contribution to a 529 plan.

	Federal	State
<b>Deduction for contributions</b>	No	31 states offer a deduction
<b>Tax-deferred growth</b>	Yes	Yes
<b>Tax-free qualified withdrawals</b>	Yes	Yes, all states (but one requires in-state plan)
<b>Penalty for nonqualified withdrawals</b>	Yes, 10% penalty on earnings, and taxed at recipient's rate	Depends if state penalty still on books, also possible income tax ramifications

## Do You Need More Liability Protection?

Liability insurance protects individuals and businesses in the event they're held financially responsible for injuring someone or causing property damage. You probably already have this important protection, but do you have enough?

### Personal liability insurance

Despite the common belief that only people with substantial wealth or assets are the targets of lawsuits, that's not necessarily the case. Accidents can happen anywhere, to anyone, and even people of modest means may be at risk. For example, here are some common situations that might result in a liability claim:

- Your dog escapes from the house and bites a delivery person
- A neighbor's child is hurt while jumping on your backyard trampoline
- Your vehicle broadsides another, injuring the driver

Unfortunately, if you're sued, your assets are potentially at stake—your savings, your investments, and in most states, even your home. Even if the claim is eventually proved groundless and you're not held liable for damages, the cost of mounting a defense can be high.

That's why personal liability insurance is so important. Not only does it cover any court awards you're required to pay as a result of damage or injury caused by you, your family members, or your pets, but it also covers your legal bills, up to policy limits.

### You probably already have some coverage

Homeowners, renters, and auto policies all contain liability coverage, so you may already have a basic layer of protection. However, you may not have enough, especially if you have only the minimum required. For example, liability limits for homeowners insurance generally start at \$100,000, while required minimum limits for auto insurance in most states range from \$30,000 to \$60,000. Often, you'll need far more liability coverage than this to adequately protect your assets.

Ask an insurance professional to review your liability limits and help you decide how much you need, based on factors such as your age, assets, income, and lifestyle.

### If you need more coverage

What if you have the highest available

coverage limits but you still need an additional layer of protection? Consider purchasing an excess liability policy, also called an umbrella liability policy. Because it offers higher coverage limits (often starting at \$1 million) than basic personal liability insurance, an umbrella policy will cover you for larger losses.

You'll need to have a certain level of underlying liability coverage (generally between \$100,000 and \$500,000) in order to purchase an umbrella liability policy, because the umbrella coverage kicks in only after you've reached the limits of your underlying policy. For example, if you have an auto policy with a liability limit of \$300,000 per accident and a \$1 million umbrella policy, your auto policy would cover the first \$300,000 of a \$700,000 claim and your umbrella policy would cover the remaining \$400,000.

### Business and professional liability insurance

The widely publicized case of a dry-cleaning business that was sued for \$54 million over a lost pair of pants illustrates the importance of business liability protection. Although the owners of the business prevailed in the lawsuit and were awarded court costs (not including attorney's fees), they did not have liability coverage, and they may never recover the tens of thousands of dollars they spent mounting a two-year defense against this lawsuit.

While businesses can't always prevent such liability claims, they can purchase coverage for the special risks they face. One option is commercial general liability insurance, which is often part of a business owners policy. Business umbrella liability policies that offer higher liability limits are also available.

However, some liability risks are unique to certain businesses or professions, so you may also need specialized coverage. For example, if you work in an occupation that is particularly vulnerable to professional liability (e.g., law, medicine, day care), you may also need a separate professional liability policy, usually called malpractice coverage or errors and omissions coverage. Many other types of specialized liability coverage are also available.

Talk to an insurance professional who can help you determine the types and amounts of liability coverage that are appropriate for your business or profession.

*Read your policy carefully to find out what's covered and what's not, and to learn about your rights and responsibilities.*



*Review your liability insurance limits periodically to make sure your coverage keeps pace with your needs.*



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## Ask the Experts



### Does Uncle Sam tax my child's college scholarship?

It depends. If a scholarship is used to pay for tuition, fees, books, or required equipment, then it's not taxed. But if it's used to

cover other expenses like room and board, travel, or optional equipment, or if it's awarded as payment for teaching or research, then it's taxable.

But keep this in mind: Scholarships used to cover tuition, fees, or books (making them nontaxable) may impact your ability to claim the Hope or Lifetime Learning credit. That's because these tax credits are based on the amount of tuition and fees you pay, and any tuition and fees paid with a tax-free scholarship can't be counted when calculating your credit.

This rule has the most impact on your ability to claim the Lifetime Learning credit, worth up to \$2,000. Because this credit is calculated as 20% of up to \$10,000 in tuition and fees, a hefty scholarship applied to these expenses may leave you with less than \$10,000 in

eligible tuition and fees to count toward the credit. By contrast, the maximum \$1,650 Hope credit is based on up to \$2,200 in tuition and fees, so even with a scholarship, you might not use up all your tuition and fee expense eligibility.

However, if your child's scholarship is taxable (for example, in cases where its terms specify that it can't be applied to tuition and related expenses), then the entire amount of tuition and fees you pay can be counted when calculating the Hope or Lifetime Learning credits.

For more information, see IRS Publication 970, *Tax Benefits for Education*.

