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#### Highlights:

- Beginning 1/1/08, the “kiddie tax” will be expanded to include children under age 19 as well as most full-time college students.
- The new tax law closes a significant loophole previously available to parents with college-aged children.
- Children between the ages of 18 and 23 who own appreciated assets should consider selling these assets before the end of this year to save on taxes.
- Section 529 college savings plans are particularly attractive college funding vehicles because they are not subject to the kiddie tax.
- Putting a “freeze” on your credit file is considered by many to be the most effective method of preventing others from opening new credit accounts in your name.
- Check washing can be prevented with use of special inks.

## New Tax Law Changes College Funding Strategies

Congress has once again expanded the age range for children who fall under the “kiddie tax” law. The kiddie tax law was designed to deter parents from transferring investment income to their children to take advantage of the child’s lower tax rate. For parents with children who are old enough to escape the kiddie tax rules, gifting appreciated securities has been a tax-advantaged way to help pay for college expenses.

As the kiddie tax currently stands, a child under age 18 will have his or her unearned income (income from dividends, interest, or capital gains) in excess of \$1,700 taxed at the parents’ tax rate, provided that the parents’ tax rate is higher than the child’s. However, effective 1/1/08 these rules will expand to include children under age 19 as well as full-time college students under age 24 whose earned income is less than half of their own support.

The kiddie tax does not apply to married children who file joint tax returns, nor does it apply to students who are able to provide over half of their own support from earned income (i.e. employment income).

Not only does the change make the law more far-reaching, but it also effectively closes what would have otherwise been a significant loophole resulting from another drop in the capital gains rate for low income individuals beginning next year. Currently, the maximum capital gains tax rate on financial assets held for a year or longer is 15%. However, individuals falling into the lowest two income tax brackets

(10% and 15%) pay a capital gains rate of only 5% this year. However, in 2008-2010 the tax rate on long-term capital gains drops to 0% for these individuals.

Not surprisingly, many families have been actively gifting appreciated securities to their children with the intention of selling those securities next year, when the gains would be free from federal taxation (assuming the child would be age 18 or older at that time and within the lowest two tax brackets). However, the new kiddie tax rules now mean that children who will be under age 19 (or full-time students under age 24) during the years 2008 - 2010 will not likely be able to benefit from this strategy.

Though the revised rules close a significant funding opportunity for parents with college-aged children, there are a few strategies that can be implemented now to help reduce taxes while aiding college funding efforts. One such strategy is to **gift appreciated assets now to children who will be attending college and are between the ages of 18 and 23. These assets should be sold before the end of this year.**

In 2007, a parent can make a gift of up to \$12,000 – or \$24,000 as a couple if filing jointly – per child without triggering gift taxes. Exceeding this limit may make sense in a number of cases, though advice from an estate attorney is advised. In most cases, the capital gains will be taxed in 2007 at the child’s 5% rate, as opposed to the parent’s 15% rate if the securities are sold after 2007.



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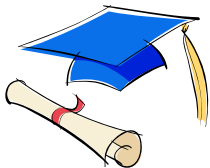
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Also, parents should limit gifting assets that produce taxable unearned income until after the child has passed the maximum age under which the kiddie tax would apply. Prior to then, stocks and equity mutual funds that generate little or no income are generally appropriate investments to gift to a child.

Finally, parents should also consider funding a College Savings Plan (also called a 529 plan) for their children. These plans are especially attractive now because they are not subject to the kiddie tax. Using a special election, parents who file jointly may contribute up to \$120,000 (or \$60,000 if filing individually) to a child's 529 account. Once funded, investment earnings will grow tax-free in the 529 account. In addition, withdrawals made by the child for qualified tuition expenses are exempt from federal taxes.

WESCAP has written an in-depth report on 529 plans which includes our top choices among the various state-sponsored plans. This complimentary report is available upon request.



## Protecting Yourself From ID Theft—Part 1

Credit card and related credit identity theft are major sources of consumer fraud losses. Thieves will often obtain and use a victim's personal information to open credit card and other accounts in the victim's name and quickly max out the accounts. This can lead to a damaged credit rating and much time and effort trying to repair the problem.



### Credit Freeze

One solution to this particular problem is to put a "credit freeze" on your credit file. Because most businesses will not open credit accounts without first reviewing an individual's credit report, an effective way to ensure that creditors will not open new credit accounts is to prevent others from accessing one's credit report. A credit freeze locks up the information needed to run a credit check on the applicant. When a company tries to review a credit report that has been frozen, it will receive a notice stating that the report is frozen. As a result, the new account application usually will be denied.

Currently 28 states, including California, have passed some form of credit freeze protection, which is much more effective than the more commonly known fraud alert. To place a freeze, an individual needs to apply directly with each of the three credit bureaus – Equifax, Experian, and TransUnion.

Generally, the combined cost to freeze an individual's credit report ranges from \$30 - \$36.

The main drawback of the credit freeze is the delay it may cause when applying for credit or other instances where a background check is necessary. This may include loans, new credit cards, a new job, rental, cell phone and other utility service, and many new accounts.

An individual can have the freeze temporarily "thawed" or permanently lifted, but it often takes three or more business days and typically costs \$10 - \$12 per credit bureau. Therefore one needs to plan ahead whenever applying for items that require a credit check.

For more information about credit freezes including sample letters to send to the credit bureaus - go to [www.privacy.ca.gov](http://www.privacy.ca.gov) and search under "credit freezes".

### Check Washing

Check washing, in which the ink on a check is chemically removed in order to fraudulently change the payee and amount, is another significant problem. WESCAP has found a pen that uses a special solvent-resistant ink, which we offer on a complimentary basis.

In upcoming newsletters, we will address other aspects of identity theft and fraud so that you can be better prepared and protected.