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Play it smart when paying college tuition

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If your child just graduated from high school, this could be the longest summer of your life. No kidding. And no more delaying. You have to figure out how to pay for Junior's higher education, and you have to figure it out quickly.

Of course, many people turn to grants, scholarships and loans. A lot of financial aid is available: Tens of billions of dollars go out every year to students. But since much of it is needs-based, you may not qualify.

So how should you handle those college expenses — assuming that you won't qualify for grants and low-interest loans?

Ideally, you'll turn to the money you've been saving just for this occasion. You know, that pot of gold you've been squirreling away ever since your young progeny graced your living room with the scent of his soiled diaper. Just in case that happy day didn't prod you into a savings plan, let's examine other alternatives.

First, you could borrow from your IRA. This is usually the worst thing. Why? Because every dime you withdraw from that retirement account will be taxed at income rates. Yes, withdraw \$20,000 from the IRA to pay for little Timmy's college and (if you are in the 30 percent tax bracket), you'll be writing a check to Uncle Sam for 6,000 smackers. And to make matters worse, if you are under 59 years old, add an additional 10 percent on top of that tax. It's the penalty you pay for early IRA withdrawals.

Some people have turned to credit cards, which is a very silly thing to do. So please don't. The credit card companies will charge you 18 percent interest, and that's if they like you.

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Enough said. This is actually worse than an IRA withdrawal. Don't do it.

Here's an idea you will love: Ask your parents to pay for it. Let's face it, the odds are that your parents like their grandchildren a heck of a lot more than they like their children (that's you), and they might be willing to help out. If they can afford it, they can give a gift to you and your children each year, and that should be more than enough to pay the freight. Plus, they get the money out of their estate. In fact, if they make the payments directly to the college, they can remove huge amounts from their taxable estate. A huge tax benefit for them.

Still another idea is to use an equity line of credit. The benefits are that the interest is tax-deductible for you, and the rate is usually lower than most of the alternatives. The obvious downside is that you'll be saddled with debt. However, if you have no other alternatives, this may be a good source for some of the expense.

Having said that, don't overlook your sweet child's ability to get off his derriere and work a little.

In fact, if you can, give him a job working for you. If you own your own business, this works out great tax-wise. Some folks refer to this as income shifting. It works when your children are in a lower tax bracket than you are and, in most cases, this is true. Think about it: If Junior's on the payroll, you get to deduct the labor expense (at your presumed high tax bracket) and Junior declares the income at a very low tax bracket. Then Junior uses the income to pay his own college costs.

The benefits are plentiful. First, you get some tax benefits. Next, you finally witness that, yes, he can help out and get off the computer. And don't forget that you'll be paying for services rendered. Little Timmy will get something done for you that maybe you didn't have time to do. Even if you don't have your own business, consider giving Junior a job.

In fact, even if you can afford to pay for college for your children, consider having them work to pay some of those costs and possibly loaning them the balance with the understanding that they must repay you after college. This gives them ownership in the college experience. This one thing alone can make the difference for your children between using college as a gateway to a successful and responsible life or just a very long toga party.

— Neal Frankle is the author of "Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity." E-mail him at Neal@WealthResourcesGroup.com.