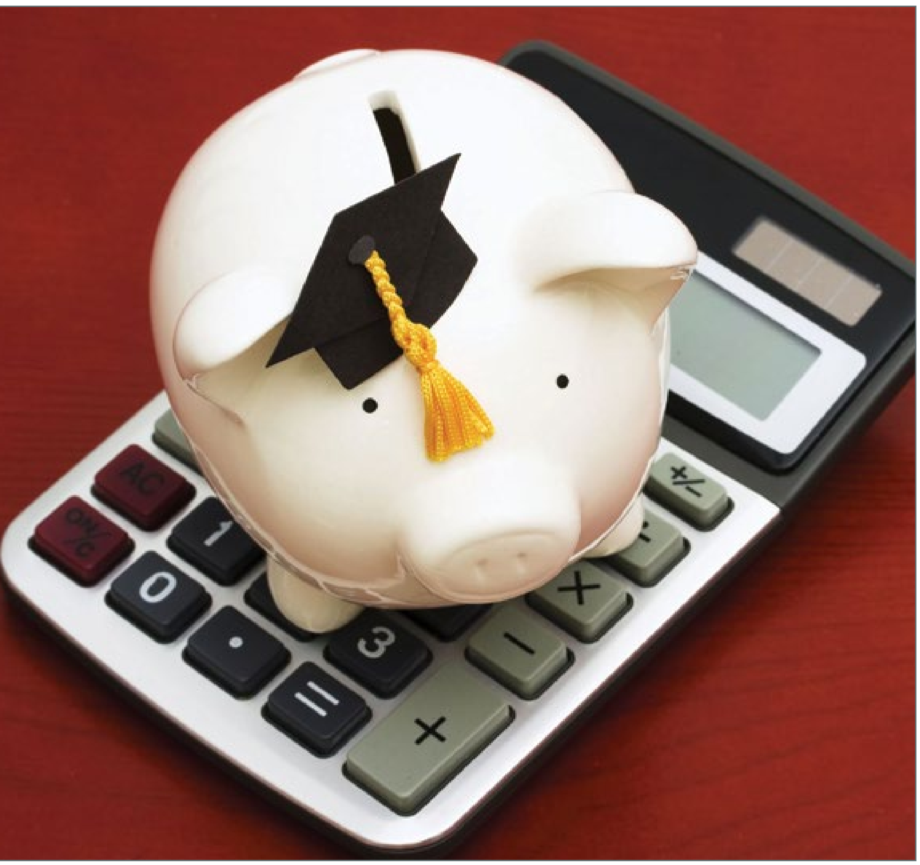
JOE LEE'S FINANCIAL NEWS DIGEST



MONEYLINE

What To Do With Leftover College Savings Money

Courtesy of Joe Lee

So you did an exemplary job of putting money away in a 529 college savings plan to help out Junior, but what can you do with any leftover money in the plan? If the intended beneficiary decides not to go to college, the money can be used to pay for postsecondary vocational or technical training at schools eligible for financial-aid programs administered by the US Department of Education. You may want to check out the "Tools and Calculators" section of the SavingForCollege.com website to see if a particular school is eligible.

If the beneficiary of the plan does go to college and there is money left after he or she graduates, you can use it for graduate-school expenses, or change the beneficiary to another family member. As a parent who funded the account, you can also use the money to pay for part-time college courses for yourself.

If money is left over because your child is a basketball star or a whiz kid and got a big scholarship and you want to withdraw cash for nonqualified expenses, the 10% penalty usually imposed for nonqualified expenses is waived as long as withdrawals don't exceed the amount of the scholarship, but the money withdrawn is subject to tax on the earnings.

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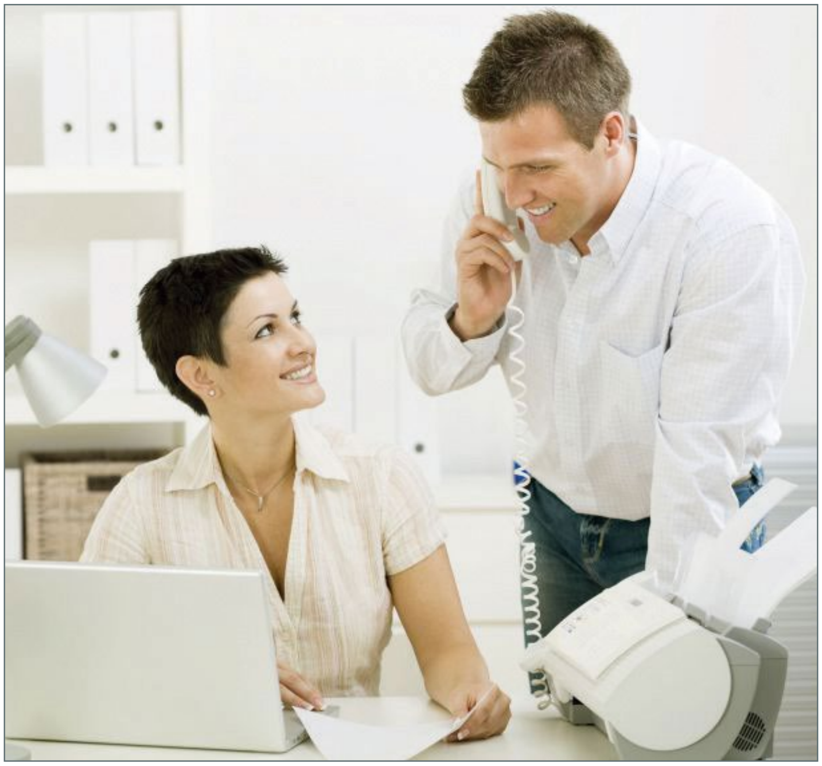
Tax talks with accountants may not always be confidential. The IRS has successfully argued in some court cases that accountants working with a lawyer for a client are not protected by lawyer-client privilege. In a case involving securities fraud and tax evasion, a court said that the so-called Kovel Rule—a 50-year-old principle of extending attorney-client privilege to experts working with lawyers—did not protect talks between a lawyer and an accountant. Don't assume that conversations are protected. Address the confidentiality issue with your lawyer and ask what can be done to protect communications with accountants and other experts.

Unclaimed-property scam. Thieves claiming to be from the National Association of Unclaimed Property Administrators are sending e-mails telling people that they can claim substantial amounts of property but need to provide identification to obtain it. The scammers ask for bank account, credit card, and Social Security numbers. *Self-defense:* Delete e-mails about unclaimed property—and hang up if you get an unsolicited phone call about it. Check for property to which you may be legitimately entitled by going to Unclaimed.org.

"Today, there are three kinds of people: the haves, the have-nots, and the have-not-paid-for-what-they-haves."

— Earl Wilson



Tips For Independent Contractors

By Anya Kamenetz, Tribune Media Services

According to the Freelancers' Union, one-third of the workforce can be considered independent — the self-employed, contractors, consultants, temps and sole proprietors. For everyone who receives at least one 1099-MISC at the end of the year instead of or on top of the normal W-2, taxes are a bit more complicated come April. But with a little bit of savvy, you should be able to maximize your take-home earnings. Here are some of the top tips.

Put money aside for estimated quarterly payments.

The IRS wants to see your money all year round, just as it does with conventionally employed people. April 15, June 15, September 15 and January 15 are when these payments are due. If you neglect this, you'll be on the hook for an underpayment penalty and also may raise red flags for an audit. Some advisors recommend creating a dedicated savings account for your tax money with automatic monthly transfers.

Maximize your deductions.

If you're a freelancer, you can deduct the expenses associated with a home office, from rent to furniture to houseplants and housecleaning, even if it's not a separate room in your home; you simply prorate the costs based on the square footage devoted to working from home. Note: To qualify as a home office, that space must be used regularly and exclusively for work.

Entertaining clients for business is deductible at 50 percent, while an actual working meal eaten with colleagues while working on a project can be deductible at 100 percent.

Business travel and lodging are 100 percent deductible; if you tack a few vacation days onto a business trip, the airfare is still a 100 percent write-off as long as there are more business than pleasure days on the trip.

Don't forget to deduct the cost of tools used for your business, such as a laptop or camera, and for continuing education courses and professional association memberships, as long as they pertain to your work.

Save money with your health care and retirement plans.

All health care costs, including COBRA from your previous job, are 100 percent deductible.

If you open a Simplified Employee Pension (SEP) plan, you can shelter up to one-quarter of your earnings from self-employment, up to $50,000 this year. That compares with an $11,500 cap on a SIMPLE IRA.

Consider making it a family business.

TurboTax suggests a nifty maneuver: if you hire your spouse and give him health care benefits, you can put yourself on his health care policy, which saves money on self-employment income and tax.

Similarly, if you hire your dependent for clerical tasks or even to clean your home office, the wages will be deductible for you, and if their earned income is less than $5,800, they won't owe any tax on the money either.

Keep excellent records.

In order to minimize your tax liability, you'll need to be able to back up all these claims. Ideally, you'll have on hand receipts and invoices, as well as credit card and bank statements and cancelled checks.

Financial Independence For Adult Kids

By Janet Bodnar, Kiplinger's

I'm at the other end of the generational spectrum from a Kiplinger colleague, Amanda, who recently gave her fellow twenty-somethings sound advice on how to establish financial independence with help

from Mom and Dad on Kiplinger's online blog. As the mother of three twenty-something children, I'd like to dole out some advice based on my own experience.

Job counseling.

Amanda warns kids to beware of helicopter parents. I second that. We advised our children when asked, but that was the extent of our involvement. My husband and I discovered that as our kids got older and started looking for "real" jobs, they were more receptive to the job-hunting tips they used to ignore. For example, they'd ask us to review their resumes, and we no longer had to prod them to make personal contact with potential job sources or advisers. But they did the legwork and made the phone calls.

Setting ground rules.

Amanda suggests that parents and kids write a contract, especially if the kids are moving back home. I would add that the most successful families have a Plan with a capital P. Before the kids come back, agree on terms and expectations. Your arrangement should cover how long your child will stay, what the house rules will be and how much he or she will contribute in either cash or services.

Financial support.

If money is an issue, Amanda advises that young adults first sit down and evaluate their current situation, then use parents to "fill in the holes." I agree. At various times, we've allowed our kids to live at home and pay little or no rent, helped them purchase cars, and paid for their health insurance before they had jobs. But they were responsible for day-to-day living costs and grad-school expenses.

On their own.

In a recent study by the University of Michigan Institute for Social Research, parents reported that if children were cheerful, self-reliant and got along well with others when they were young, they were more likely to receive financial gifts or loans from Mom and Dad when they were young adults. "Basically, parents are more likely to help those who, even at a young age, help themselves," says Patrick Wightman, one of the study's authors.

I can appreciate that. As a parent, your role with adult kids is the same as it was when they were young: You want to give them a helping hand, but eventually they have to stand on their own two feet.

"People hate the rich. I need to make some bad investments, bankrupt my company, fire everyone and go out of business so people will like me again."

When the market is low, consider converting to a Roth IRA to save on taxes, says Ed Slott, CPA. When you convert a traditional IRA to a Roth, you pay income tax on the entire amount converted. By converting at a time when stock prices have plunged, as they have recently, you likely will pay less in taxes. Then you never have to pay taxes again on assets in the Roth. To maximize your flexibility, set up at least two separate Roth accounts, dividing them into more conservative assets, such as bonds, and more aggressive investments. That way, if one asset class—say, stocks—continues to fall after the conversion, you can undo, or "recharacterize," that particular Roth back into a traditional IRA and then, after a waiting period, convert it again to a Roth with an even lower tax bill.

Defend yourself against disability insurance cutbacks on employer-paid policies. If your assets would be severely strained in the event of a disability, consider buying insurance on your own. Read policies carefully—many pay only if you can't do any work, and some pay only if you are fully, not partially, disabled. To reduce costs, delay the time when payments begin. If you have six months of emergency cash, you can handle a 180-day elimination period instead of the standard 90 days.

"A bank is a place that will lend you money if you can prove that you don't need it."

— Bob Hope

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Sometimes I Need To Be A Negative Nelly

By Jill Schlesinger, Tribune Media Services

Making retirement a viable option can mean deferring gratification at some points in your life, or having to make tough decisions in others. The emotions around these choices can be daunting and may even lead people to the wrong conclusions, which is why so many work with financial professionals.

People need to understand how they can achieve their financial goals in a manner that is consistent with their risk tolerance levels. By necessity, a dose of real life must enter the equation.

Sometimes what is needed is a Negative Nelly. There are instances when a client must be told that he shouldn't buy a bigger house, because it would put his retirement planning in jeopardy, or that sending his child to private college would mean an extra few years of work for the parents or a pile of debt for the student, or the decision to retire early may mean assuming the risk of running out of money. The job of a financial professional requires delivering messages that are sometimes difficult to hear.

I am rooting for every single one of you to reach the goals you establish. If you want to bail out and stop working and you can afford to do so, go for it! If you want to keep on working even though you could well afford to retire, do it! Just be clear that in most cases, these are choices that are usually available only when they are preceded by planning. And by its very nature, the planning process often requires someone to play the Negative Nelly role. In the case of this column, I am happy to play that part when the situation calls for it, but I will be the first to turn into Positive Polly when you reach your desired destination.