

I apologize for inundating you with information. Be assured that I would not waste your time or my time if I did not think the information would add value. If it were not important, I would not send you any of my newsletters.

In light of the new FAFSA timeline implemented for next year (school year 17-18) one of the most crucial aspects that no one is talking about is how important 2015 income will be. In light of this going into effect, your 2015 will be used twice, first for 2016-2017 school year or this current FAFSA season, and again, because of the changes, for next school year 2017-2018. What that means is that you **MUST** start your planning **NOW** to keep your 2015 income as low as possible.

Some ideas that you may consider:

May not be applicable for everyone and may not be possible but here goes

1. Sell assets that you have a loss in.
2. Defer any bonus or income until 2016. Employers can generally deduct the payment for the current year as long as you receive the bonus within two and a half months after the end of the tax year.
3. Self Employed can defer income until 2016 by delay billing their clients.

If you are able to defer until 2016, your income will be counted for the 2018-2019 school year. If your student is a senior in high school now, graduating and starting college in 2016, the first two years of financial aid eligibility will be based on 2015 tax year. The next two years will be 2016 and 2017 tax years respectively.

If your child is a *junior in college* (not a high school junior) you could wait until January 2016 and then sell, because the resulting income would be in the 2016 tax year which would only get reported on financial aid forms when applying for aid for the 2018-2019 academic year and your child (presumably) will already be graduated. If the child is a college sophomore today, you could sell in 2017 when the child is a college junior and obtain the same result.

You should be aware that selling assets that will generate gains will have the opposite effect. It will hurt your eligibility for the next two FAFSA years. Let me explain

If you have an investment worth \$50,000 that has an *unrealized* gain (meaning you have NOT sold it yet) of \$15,000, just the value of that investment gets reported on the aid forms. As soon as it is sold and the \$15,000 gain is *realized* for tax purposes, then the capital gain income will be reported as part of your adjusted gross income on the aid forms, the FAFSA and CSS Profile.

Assuming you are in the 25% tax bracket or above (capital gains rate is zero in the 10% and 15% brackets), you will pay capital gains tax at 15-20% (as high as 23.8% for some taxpayers), or

\$2,250-\$3,000 on the \$15,000 gain and raise the child's EFC by about half of the after-tax income, or \$7,500.

If your child owns the asset and has no other income, the child will be subject to the kiddie tax and pay \$2,100 capital gains tax. There are specific strategies I have used and written about to wipe out kiddie tax liability. If you would like to know more, call or e-mail me. The student's income protection allowance in the aid formulas would offset about \$6,400 of the \$15,000 in capital gain income. So, after taxes and the student's income allowance combined \$8,500, the income from the sale would increase the student's EFC by about \$3,250.

Please call me to discuss your specific situation. This is too important to brush it off to the side. We can schedule an in-office meeting or a phone consultation to see if there are any options to lower your 2015 income.

Until next time,

Michael Gaer