



# Your Bottom Line

PUBLISHED QUARTERLY BY: MACKENSEN & COMPANY, INC. FEE-ONLY FINANCIAL PLANNERS  
*Navigating a clear course toward your financial security.*



Warren Mackensen

## The New Tax Law .....

The passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003 dropped the top four federal income tax brackets to 35%, 33%, 28%, and 25%, retroactively to January 1, 2003.

For investors, the maximum rates on long-term capital gains (those on assets owned for more than one year) are 15% through 2008 for taxpayers in higher income-tax brackets and 5% through 2007 for taxpayers in the 10% and 15% income-tax brackets.

Also effective January 1, 2003, tax rates on qualified dividend income are reduced to 15% for taxpayers in higher income-tax brackets and to 5% for those in the 10% and 15% brackets. Qualified dividend income generally includes dividends paid on stocks and mutual funds subject to a certain holding period.

**529 Plan Advantages Diminished:** Section 529 college savings plans allow an investment to grow free of federal taxes, as long as it is used for qualified education expenses such as tuition, school fees, and room and board. Unlike custodial accounts, such as Uniform Transfer to Minors Act (UTMA) accounts, the parent, grandparent, or other individual who owns the account has control

over the distribution of funds after the minor has reached age 21.

During the past few years, 529 college savings plans have received widespread publicity because of their tax advantages, fairly high investment limits, and lack of income or state residency restrictions. The new tax law affects none of these attributes.

However, with long-term capital gains tax rates for the lowest tax brackets now at 5%, there is less tax to pay on withdrawals from custodial accounts. It may now make more sense to invest in low-cost mutual funds through a custodial account rather than a 529 plan, which has higher expenses. The overhead costs associated with 529 Plans, sometimes as high as 2.5%, have always been a major drawback. These fees and charges negatively affect long-term investment performance. The costs may easily exceed the tax advantages.

Keep in mind that the lower capital gains rates are currently scheduled to expire at the end of 2008 and therefore may not be available when it is time to withdraw the money for college. Similarly, the federal income tax exemption for 529 plans is scheduled to expire at the end of 2010 unless extended. So despite the fact that the tax law has made 529 plans less attractive in certain

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## Mackensen & Company Recognized as Top Wealth Manager .....

For the third year in a row, Mackensen & Company was recognized as one of the "Top Wealth Managers" in the country by Bloomberg Wealth Manager.

Members of the list were chosen based on the excellent service they provide to their clients, especially in today's challenging and competitive environment. All members also provide comprehensive financial planning, are independently owned and have more than \$25 million in assets under management. Mackensen & Company was one of only three firms from New Hampshire that were recognized. ❖

## Community Outreach .....

With Melissa's help, Mackensen & Company is reaching out to the community to increase the public's knowledge of financial planning issues. We have contacted over 100 diverse civic, religious and business groups/clubs/associations and offered to address their members on contemporary financial issues.

If you are a member of a civic, religious or business association that would like its members to become more enlightened on financial topics, please contact Melissa Brown Gagne at 800-927-7365 to schedule a time for us to speak. ❖



## Women's Financial Workshop . . . . .

Many women find themselves dependent on their husbands to manage their financial affairs. Yet through divorce or death, over 75% of women will have to manage on their own at some point in their lives. Jill Boynton, CFP, and Susan Veligor, CFP, are encouraging women throughout the Seacoast area to become more knowledgeable about their finances through a series of women-only workshops. These workshops provide them with the guidance to successfully navigate through the many aspects of financial planning, including cash flow, budgeting, investments, taxes, estate planning and retirement planning.

The next workshop will take place on four Thursdays this fall at the Rye Public Library: September 18, 25 and October 9, 16 from 6 – 7:30 p.m. If you are interested in attending a workshop or know of someone who may be, please contact us for more information or you may visit our web site, [www.mackensen.com](http://www.mackensen.com). ❖

Jill Boynton



Susan Veligor

## The New Tax Law (continued) . . . . .

circumstances, they are still an attractive option for parents, grandparents, and relatives who want to make significant contributions to a child's education. Nevertheless, selecting an educational savings plan requires careful evaluation.

**Custodial Accounts:** Parents may want to consider custodial accounts because the new tax law has made them more attractive. Children 14 years and older who are in the two lowest tax brackets may sell securities (and mutual fund shares) at the new capital gains rate of 5% through 2007 and 0% in 2008. For children younger than 14, custodial accounts are taxed exactly as they were under prior law: The first \$750 of investment income is exempt from federal income tax, the second \$750 is taxed at the child's rate, and any income in excess of \$1,500 is taxed at the parents' rate.

Despite their tax advantages, custodial accounts still have the same drawbacks as they had before the passage of the new tax law. Once money is deposited into a custodial account, the donor cannot reclaim it. Also, unlike a 529 plan, the child gains control of the custodial account at the age of majority (anywhere from age 18 to age 25 depending on the state) and may spend the money on anything he or she chooses. As a practical matter, this drawback is generally not a problem.

**Coverdell ESAs:** Coverdell Education Savings Accounts (ESAs) are unaffected by the new tax law. Earnings accumulate federally tax-deferred and tax-free if withdrawals are used for qualified education expenses in secondary school, many technical schools, college, or graduate school. You may also take tax-free withdrawals for elementary and high school expenses until 2010 unless extended.

The primary drawbacks of ESAs are that contributions for each child are limited to \$2,000 a year and there are income limits on who is eligible to contribute.

As you consider college savings options, funding retirement savings accounts, i.e., 401(k) plans, IRAs and Roth IRAs (if eligible), remains critically important before making college savings contributions. Remember that Roth IRA contributions (but not earnings) may be used for college expenses without taxes or penalties. ❖

Mackensen & Company, Inc., is a fee-only financial planning and investment management firm. No commissioned products are sold. For further information, call:

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