SIX TAX-SMART WAYS TO HELP YOUR KIDS OR GRANDKIDS

There are several tax-smart ways to help your kids or grandkids:

1. **Contribute to a 529 plan.** Money in a 529 plan can be used tax-free for college costs, and in Wisconsin you get a state income-tax break for your contributions. To qualify for a state-tax break, you generally need to contribute to your own state's 529 plan. Check the rules with your tax advisor. Because the owner of the account gets the deduction, it's a good idea for parents and grandparents to open separate accounts for the kid, so they can both deduct their contributions -- there's no limit on the number of 529 accounts that can be open for one child.

2. Get a gift-tax break from 529s. You can generally only give up to $13,000 per person in 2012 without being subject to gift-tax rules. But you can make five years' worth of 529 contributions ($65,000 per child, or a married couple can contribute up to $130,000 per child) all in one year without triggering the gift tax, as long as you don't give that person any other money within the five years.

3. Get a tax credit for tuition payments. The American Opportunity credit can cut your tax bill by up to $2,500 per student if you're paying tuition for the first four years of college (grad school doesn't count). To qualify for the full credit, you must spend at least $4,000 in tuition and qualified expenses (including fees, books and related course materials), and your modified adjusted gross income must be below $160,000 if married filing jointly or $80,000 if single or head of household (a partial credit is available for couples with income of up to $180,000 or singles and heads of household earning up to $90,000.) The student must be considered your dependent to qualify for the credit -- so it generally applies only to parents.

4. **Pay tuition directly to the college.** Direct payments to educational institutions are excluded from the $13,000 annual gift-tax limit. This rule applies to anyone making the tuition payment and is particularly popular with grandparents who want to give some extra money to their grandkids without running up against the gift-tax limits. Only direct tuition payments are exempt from the gift-tax limits; this rule doesn't include payments made for room and board.

5. Help your kids or grandkids contribute to a Roth IRA. Kids of any age can open a Roth IRA as long as they have earned income from a job -- even if it's just from babysitting, lawn mowing or other odd jobs. They can contribute up to the amount of their earned income for the year, with a $5,000 maximum in 2011. And since most kids won't want to stash away all of their paychecks for the future, you can give them the money to make the contributions. You can't get a tax break for your gift, but the kid will reap the tax benefits in the future -- your child or grandchild can withdraw all of the money (including the earnings) tax-free after age 59½ and can access the contributions at any time without taxes or penalties. Even a small contribution now can grow substantially over the next 50 years, especially without the drag of taxes. See Roth IRAs for Kids for more information about the rules and some firms that make it easy for kids to get started with a Roth. You still have until April 18, 2011, to contribute to a

Roth based on 2010 income.

6. Open a custodial account for the kids. A custodial account won't provide as big a tax break as the other strategies, but it's a great way to teach your kids about investing. You can open a custodial account for your children at a brokerage firm or mutual fund company, and you can make the investing decisions together. You can use the money for anything that benefits the child until he or she reaches the age of majority (21 in most states; 18 in a few) and takes over control of the account. Custodial accounts for children younger than 19, and full-time students younger than 24, are generally subject to the kiddie-tax rules: That means the first $950 of the child's investment income is tax-free; the next $950 is taxed at the child's own, low rate. Any investment income that tops $1,900 in 2012 is taxed at the parents' higher rate. If your child is nearing college age, it's important to consider the impact of various forms of saving on financial aid.