

UGMAs & UTMAs

The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) are two vehicles designed to set up custodial accounts in a child's name for the benefit of the child. Both provide a simple and inexpensive method of making a gift or bequest to a minor without the expense of a trust.

FEATURES

CONTRIBUTIONS

There are no contribution limits. However, contributions in excess of the federal gift tax limit will be subject to a gift tax. Currently, \$14,000 (\$28,000 if married) can be contributed to each custodial account. There is no lifetime limit to the aggregate amount that can be contributed as long as no more than the annual limit is contributed each year. Contributions are considered an irrevocable gift.

ELIGIBILITY

Any adult can set up a custodial account for a child under age 18.

DISTRIBUTIONS

Distributions can be made for any use that benefits the child. The beneficiary assumes control at the age of majority, typically 18 or 21 in most states. Once the beneficiary assumes control of the account, the money is there's to do with as they please. This means distributions may not necessarily be used as hoped by those who set up the account.

TAX TREATMENT

Because the assets are considered the property of the minor, earnings in these accounts are subject to the "kiddie tax" which kicks in once income exceed \$2,000. For beneficiaries under age 19 and full-time students under age 24 whose earned income is less than one-half of their support, the first \$1,000 of earnings is tax-free. Earnings between \$1,000 and \$2,000 are taxed at the child's rate; earnings above \$2,000 are taxed at the parents' rate.

It is important to note that kiddie tax can be avoided if the child has earned a sufficient amount of income to provide over half of their support. In this case, the child's unearned income would be taxed at their tax rate, not the parents as this is known as the support test for the kiddie tax.



INVESTMENT OPTIONS

These accounts generally have no limitations of the stocks, bonds, mutual funds, and ETFs they can invest in. However, because to their custodial and protective nature, they are not permitted ownership of higher risk investments like stock options or buying on margin.

FINANCIAL AID

In calculating estimated family contributions toward college costs, the standard federal aid formula requires children to pay 20 percent of savings held in their name. In addition, income from these accounts will be considered in calculating the student's income and expected contribution amount.

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