Review Your Options When Gifting to Minors

Wealth Planning | Estate and Tax Planning

Individuals may choose to set aside gifts for minors for different reasons. Some gifts are for educational expenses. Others may be for a future purchase. A gift may also help the donor with estate or tax planning goals. Whatever the reason, it is important to review the account options available for holding those gifts on a minor's behalf.

The choice of account types can include 529 plans intended for education savings, Uniform Transfers to Minors Act accounts (also called UTMA or custodial accounts), Trump accounts, and Roth IRAs. Since all of these account types work a little bit differently, it can be difficult to compare and choose the best option. When making this decision some factors to consider include limits on use of funds, tax treatment, investment selection, and who controls the account. The following table reviews various aspects of each account to help with choosing the best account for your gifts.

	UTMA Accounts	529 Plans	Trump Accounts	Roth IRAs
Allowed use of funds?	Funds must be used for the benefit of the child, no other restriction on use	Funds must be used for qualified expenses to avoid taxes and penalties	Distributions not allowed prior to year of turning age 18, may be used for any purpose after that	No restriction on use of funds
Tax treatment?	Earnings are taxed as received	Tax deferred, earnings tax-free if used for qualified expenses	Tax deferred, earnings taxed upon distribution; may be subject to 10% penalty prior to age 59 ½	Tax deferred, earnings tax-free after age 59 ½; contributions may be withdrawn tax-free at any time
Limits on investment selection?	No	Yes, based on what is provided by the plan	Yes, limited to index funds prior to age 18 only	No
Time for transfer of control to child?	Age of termination of custodianship (age 18 or 21 in most states, check state law)	No required age	Age of majority (age 18 in most states)	Age of majority (age 18 in most states)
Type of accepted contributions?	Cash or securities	Cash only	Cash only	Cash only
Annual contribution limit?	No specific limit	No specific limit	$5,000 from individuals and employers combined, $2,500 from employers	$7,500
Other considerations?	May require the annual filing of an income tax return for the child	Funds not used for education may qualify for a Roth IRA rollover (subject to annual and lifetime limits)	Children born in 2025-2028 may be eligible for a $1,000 starter contribution from the government	Child must have compensation to contribute to a Roth IRA

After reviewing these options, determine which account type is most appropriate based on your goals. It is possible that using more than one of these accounts will make sense in your situation. Talk with your Stifel Financial Advisor and tax advisor before finalizing your gifting plan.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.

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