

# Uniform Transfers to Minors Act (UTMA) Accounts

## Save and Invest on Behalf of a Child

An UTMA account allows adults to gift money or property to a minor. These funds are placed in a taxable account, usually at a bank or brokerage company, and is referred to as a custodial account. A custodian will manage the account for the child until the child reaches a specified age (often age 18 but may be as high as 25 depending on the UTMA laws of the state). The custodian may be a parent, guardian, family member, friend, or an institution. The custodian is considered a fiduciary which means they have the responsibility to manage the account solely for the benefit of the child.

When the child becomes the age specified by the terms of the account, the child becomes the sole owner of the account and can use the funds for any purpose.

## UTMA Account Benefits

An UTMA account can provide the following benefits:

- **Tax savings:** Investment earnings up to \$2,500 per year from the funds gifted into the UTMA for the child are taxed at the child's tax rate. Any investment earnings greater than \$2,500 may be subject to the parent's higher marginal tax rates.
- **Gift Taxes:** In 2023, an individual can contribute up to \$17,000 annually without incurring a gift tax (\$34,000 per married couple) and without having to file a gift tax return.
- **Multiple contributors:** Anyone can contribute to the UTMA account.
- **Variety of Investment Choices:** Most UTMA accounts offer choices like stocks, bonds, ETFs, mutual funds, savings accounts certificate of deposits, etc. as investment options.
- **Flexibility for Use of Funds:** The funds in the UTMA must be used for the benefit of the child but are not limited to a specific use like college education. This may allow the child to have more options to use the funds for a purpose that aligns with their interests.

## Potential UTMA Downsides

Though UTMA accounts are largely positive, potential downsides should be considered before opening an account for a minor.

- **Recipient has Full Power:** Once the minor turns the age of majority, the assets within the UTMA account are theirs to do with as they please. Without proper guidance, this may prove problematic.
- **Potential Financial Aid Impact:** UTMA accounts are considered assets for the minor and must be reported on FAFSA applications.

► **Questions? Schedule a conversation to discuss the potential benefits of opening an UTMA account for a minor.**