

ASHWORTH &amp; ASSOCIATES, P.C.

Newsletter

## Advantages and Disadvantages of Custodial Accounts for College Savings

### Uniform Gifts to Minors Act (UGMA)

### Uniform Transfers to Minors Act (UTMA)

#### Advantages

- ▶ People of all income levels are eligible to open an UGMA/UTMA account
- ▶ You can invest as much as you want in an UGMA/UTMA account--there are no contribution limits
- ▶ Both types of accounts offer a wide variety of investment choices (though an UTMA account generally gives you more options than an UGMA account)

#### Disadvantages

- ▶ Investment earnings are generally subject to federal and state income tax every year, and the sale of assets may trigger capital gains tax
- ▶ Earnings are taxed to the child (beneficiary) every year, and special rules commonly referred to as the "kiddie tax" rules apply when a child has unearned income
- ▶ Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount (\$1,900 in 2009)
- ▶ Gifts made to an UGMA/UTMA account are irrevocable gifts to your child and withdrawals from the account can be made only for purposes that directly benefit your child
- ▶ You can't change the beneficiary
- ▶ When the child reaches the age of majority (either 18 or 21, as defined by state law), the custodianship ends and the child has the right to complete control of the funds
- ▶ The account is treated as an asset of the child for federal financial aid purposes and assessed at a rate of 20 percent
- ▶ When total contributions exceed \$13,000, or \$26,000 for joint gifts (in 2009), a federal gift tax may result