WERNER FINANCIAL

CUSTOMIZED INVESTMENT SOLUTIONS

WHAT ARE UTMA/UGMA CUSTODIAL ACCOUNTS?

UTMA (Uniform Transfers to Minors Act) and UGMA (Uniform Gifts to Minors Act) are laws that allow adults to transfer assets to minors without the need for a formal trust or guardianship arrangement. Further, UTMA and UGMA accounts are custodial accounts and allow the gifting of assets such as money, stocks, bonds, and other financial assets, to minors.

Understanding the UTMA vs. UGMA Accounts

While there are similarities between these two types of accounts, there are also some important differences.

The key difference between UTMA and UGMA accounts is the types of assets that can be transferred to the minor. With an UGMA account, only certain types of assets, such as cash, stocks, and bonds can be transferred. UTMA accounts, on the other hand, allow for a wider variety of assets, including real estate, intellectual property, and other types of property.

Another difference between UTMA and UGMA accounts is the age at which the minor gains control of the account. With UGMA accounts, the minor gains full control of the account when they reach the age of maturity, which is typically 18 or 21, depending on the state. UTMA accounts, however, give the custodian the option to delay the transfer of assets until the minor reaches the age of 25, which can provide more time for the custodian to manage the assets within the account.

UTMA/UGMA CONSIDERATIONS	
Irrevocable Gift	Money put into a custodial account belongs to the child. At the age mandated by the state, the custodian (often a parent) must transfer control to the child. At that point, they can do whatever they want with the money.
Gift Tax	There's no limit to the amount you can put into an UGMA/UTMA, but gifts to an individual above \$17,000/year per individual (\$34,000 for a married couple) typically require a form to be completed for the IRS. Also, any amount exceeding \$17,000 in a year must be counted toward the individual's lifetime gift-tax exclusion limits.
Realized Earnings are taxable	Earnings are subject to taxes. Income from investments is considered unearned income by the IRS. For children, unearned income above \$2,200 is taxed at the rates used for estates and trusts. If interest and dividend income comes to less than \$11,000, the parent can include that income on their tax return.
Little control over how the money is used	Once the assets are transferred, the child can use them for any purpose. Check your state to see when your child is eligible to take control of the account.
Financial aid may be impacted	Financial aid can be negatively affected by custodial accounts, as they are considered assets owned by the child.

Understanding the UTMA vs. UGMA Accounts

- Until the child reaches a certain age when the account must be transferred to them, custodial accounts help adults save and invest money on behalf of the child and in their best interest.
- It is up to the custodian to ensure that the account is invested and used for the child's benefit as this is an irrevocable gift.
- As this is an account for the child, once they become of age (18-25 but varies by state) legal control must be turned over. After that, the child can use the money for any purpose they choose.

Werner Financial is a registered investment advisor located in the state of Indiana. Securities and investment advisory services offered through Werner Financial, member of FINRA/SIPC.

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