What to Know About Custodial Accounts

Are you wondering about different ways to invest in your family's future?

A custodial account can help you give your children (or another young family member, like a niece, nephew or grandchild) financial support for their college education.

How Custodial Accounts Work

A custodial account is a type of savings account that allows adults to control funds on behalf of a minor. Minors can take control of the account when they come of age, which may be at 18, 21 or older depending on the state and account specifications.

Potential Benefits of a Custodial Account

- **Flexibility.** Custodial accounts have no contribution limits and no withdrawal penalties. Additionally, the process of establishing a custodial account is typically less complex than establishing a trust fund.

- **Financial guidance.** Custodial accounts allow adults to give a financial gift to children while managing the funds until recipients are old enough to do so on their own.

Custodial Account vs. 529 Plan

529 plans, either in the form of a prepaid tuition plan or an education savings plan, are another common way to help save for your children's education expenses. Both this option and custodial accounts have advantages. What are some of the main differences?

Contributions. Unlike custodial plans, 529 plans have contribution limits and limited investment options.

- **Use of funds.** 529 plans are designated for educational expenses, while the money in custodial accounts can be used by beneficiaries for any purpose once they take control of the account.

- **Taxes.** Federal income tax does not apply to money earned and withdrawn from a 529 plan. Money in custodial accounts is taxed after a certain amount; this is often referred to as the "kiddie tax."

If you're thinking about the financial future of your young family members, we can help you explore your options. Reach out today with any questions you have.

The highest Compliment you can give your ROI Financial Advisor is to refer them to someone special like yourself. We thank you for your business & most recent consideration.

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We help clients get back to the basics of building & maintaining wealth in a tax efficient way.

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