

UGMA/UTMA Accounts

If you want to help your children or grandchildren pay for college or get a start in their working lives, you may want to consider setting up a custodial account as established by either the Uniform Gift to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). This type of account can offer you investment flexibility and tax advantages.

WHAT IS AN UGMA/UTMA ACCOUNT ?

The Uniform Gift to Minors Act (1956) or the Uniform Transfer to Minors Act (1986) provides a way to structure accounts owned by children. Over the years, most states have adopted at least one form of these uniform acts as a means of transferring the ownership of property — including investments — to children.

Essentially, UGMA/UTMA allows you to fund an account for a child, but limit the child's access to the account until he or she reaches the age of majority — typically, either 18 or 21. The child owns the account, but you are named as custodian, and you control the account until the child is no longer a minor. At that point, the custodial relationship ends and the child assumes control over the account. For a list of states and ages, visit this website:

www.finaid.org/savings/ugma.phtml.

BENEFITS OF UGMA/UTMA ACCOUNTS

By transferring assets through an UGMA/UTMA account, you can provide your children or grandchildren with some of the resources they will need to go to college, buy their first home, start a business, or begin their own investment and estate planning. You can also receive some other key benefits, including the following:

- **Potential Investment Tax Advantages** — Income tax savings is possible because the child is likely in a lower tax bracket than the parents. However, the kiddie tax rules limit the ability to benefit from a child's lower tax rate. The tax rules apply to children under age 18, children age 18 whose earned income does not exceed one half of their support, and full-time students age 19 to 23 whose earned income does not exceed one half of their support. Under the rules the first \$950 of investment income is tax-free to a child; the next \$950 is taxed at the child's rate, and any amount over \$1,900 will be taxed at your rate.

For tax years beginning after May 25, 2007, this "kiddie tax" applies to children who are age 18 or, if the child's earned income does not exceed half of the child's own support for the year, either under age 19, or, if a full-time student, under age 24.
- **Investment Flexibility** — You can fund an UGMA/UTMA account with stocks, bonds, mutual funds or virtually any other vehicle, as long as it's appropriate for your child's interests.
- **High Contribution Limits** — You can essentially contribute as much as you want to an UTMA/UGMA account. However, you can only give up to \$13,000 (2009) — or \$26,000 for you and your spouse — to any one person in a given year without incurring a gift tax. Gifts that exceed the annual exclusion are subject to a gift tax, but you receive a lifetime gift tax exemption of \$1 million.
- **Possible Reduction in Estate Taxes** — By contributing financial assets to a child or grandchild through an UGMA/UTMA, you can lower the size of your taxable estate and potentially reduce estate taxes, if any are applicable.



RBC Wealth Management®

UGMA/UTMA Accounts continued

OTHER UGMA/UTMA CONSIDERATIONS

Despite their potential benefits, UGMA/UTMA accounts are not for everyone. So, before you establish one of these arrangements, keep these factors in mind:

- *Contributions Are Irrevocable* — Once you have transferred assets into an UTMA/UGMA custodial account, you can't take them back; they belong permanently to the minor child.
- *No "Discretionary" Withdrawals* — You cannot withdraw money from a custodial account unless you can show it is for your child's direct benefit.
- *No Guarantee How Money Will Be Used* — When you set up an UGMA/UTMA, you may have envisioned using the money for a specific goal, such as paying for college. Yet, once your child or grandchild reaches legal age, he or she can take control of the custodial account and use it for any purpose.
- *Potential Loss of Financial Aid* — Assets owned by a minor child in an UTMA/UGMA custodial account are weighed much more heavily than parental assets in determining college financial aid packages.

HOW RBC WEALTH MANAGEMENT CAN HELP YOU

Your RBC Wealth Management® Financial Advisor can help you determine if an UGMA/UTMA account is appropriate for your specific savings and investment needs. If a custodial arrangement can benefit you, we can help you choose the appropriate funding vehicles for your UGMA/UTMA — including mutual funds, common stocks and corporate and government bonds — and the right investment platform, such as RBC Wealth Management's RBC Advisor.

The investments you select will depend on your needs and those of your child/grandchild, along with your tolerance for risk and your time horizon — how long before your child/grandchild needs the money or will be entitled to it. We can also help you determine how much you may need to meet your savings goals.

(You will also want to consult your legal and tax advisors before opening an UGMA/UTMA account.)

CALL US TODAY

At RBC Wealth Management, we can answer your savings and investment-related questions, whether on UGMA/UTMA accounts or any other issue. And we can provide the information you need to help you effectively invest your assets. Call your Financial Advisor today for more information.

© 2011 RBC Capital Markets, LLC. All rights reserved.