A GUIDE TO CHILD ACCOUNTS

TYPES OF ACCOUNTS & FEATURES

	UGMA	529 Plan	Transfer on Death (TOD)
Owner	Minor (custodian manages)	Grandparent or parent	Parent or grandparent until death
Purpose	None specific	Education	None specific
Taxation During Growth	Taxed annually under "Kiddie Tax" rules	Tax-free growth	Taxed to parent or grandparent when realized
Withdrawals	Taxable gains to child	Tax-free *for education*	Normal capital gains

GIFT TAX

- Annual gift exclusion of **$19,000** in **2026**
- Each parent/grandparent can give **$19,000 (or $38,000 combined)** each year with no requirement to **file a gift tax return**
- Each gift over the gift tax limit ($19,000 in 2026) will **lower the lifetime gift tax limit** of **$15 million**, which could affect **estate planning**

KIDDIE TAX

1. **First Portion**: tax free (under standard deduction for dependents)
2. **Second Portion**: taxed at the child's rate
3. **Third Portion**: taxed at the parent's rate

NON-EDUCATION WITHDRAWALS IN 529 PLANS

Earnings are taxed at ordinary income **PLUS a 10% penalty**

If the student receives a scholarship:
- The **10% penalty** is avoided
- Earnings remain **taxable**

PROS & CONS

UGMA

PROS
- Simple
- Flexible spending

CONS
- Kiddie Tax
- Lose ownership when child reaches legal age (18 in CA)
- Hurts financial aid in college

529 Plan

PROS
- Potential for tax-free growth/withdrawals if used for qualified education expenses
- Parent or grandparent retains control
- Can change beneficiaries (i.e. transferred to another child)
- Super funding option
- Available to use in K-12, not only college
- Mild financial aid impact

CONS
- Education focused (also a pro, depends on your goals)
- Tax penalties for non-qualified withdrawals
- Parent-owned 529 plans can reduce aid eligibility

TOD

PROS
- Funds may be used for various purposes
- Full control for grandparents
- Step-up in cost basis (only if transferred on death)
- May have less impact on financial aid eligibility than certain custodial accounts, depending on circumstances

CONS
- No tax shelter when accumulating growth
- Wealth only transfers at death, unless gifted

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