Diapers to Diplomas:

The good and the bad of using UGMA or UTMA custodial accounts to invest and to save for your children.

THE GOOD: UGMA and UTMA accounts provide an easy way to gift/transfer assets to a minor. They can be used for pre-college education expenses or, once the minor reaches age of majority, the funds can be used for anything.

UGMA/UTMA accounts can also allow for greater investment options than 529 college savings accounts and just about any type of security can be gifted/transferred to an UTMA or UGMA. UTMA law even allows for real estate to be transferred into the accounts.

These accounts can also provide a tax benefit for the parent with the first $1,050 of interest, dividends, and capital gains exempt from taxes and the second $1,050 taxed at the child's rate. **Tax year 2016 values, subject to change each year.*

THE BAD: The tax benefit listed above can also make these accounts unattractive in that unearned income over $2,100 may then be taxed at the parent's tax rate.

Versus a 529 plan, which is listed as a parent's asset, these accounts may negatively impact financial aid eligibility as FAFSA treats the accounts as an asset of the student.

Once assets are put into a UGMA/UTMA account they are owned by the child. If spending needs arise down the road, the parents cannot use those funds for themselves, and may suffer from "UGMA/UTMA regret".

OUR THOUGHTS: If you specifically want your gift to be used towards the child's college education, we recommend a 529 college savings plan. This will ensure your intention and provides greater tax benefits. If you desire flexibility and want to help your child gain a greater sense of financial responsibility in life, a UGMA or UTMA account may be the right solution for you.

The advice provided is general advice only. It has been prepared without taking into account your objectives, financial situation or needs. A professional advisor should be consulted before implementing any of the options presented.

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