

Transferring Assets to Minor Children

Sometimes it makes sense for a parent to begin transferring wealth to children well before his or her own life expectancy and before the children have reached the age of majority. One advantage to making such gifts is the estate and gift tax savings.

If the gift is within the annual exclusion (currently \$12,000 per year), there are no gift or estate tax consequences. If the gift exceeds that amount, then the excess will be taxable although no tax will actually be paid until the donor's total taxable gifts exceed \$1,000,000. See the tutorial ***Federal Estate, Gift and Generation-Skipping Transfer Taxes***. However, even if the gift is taxable, the future appreciation on the gift will not be. Suppose, for example, that you gave \$100,000 to your daughter. The value of the gift for tax purposes would be \$100,000 but if, at the time of your death, the value of the gift has grown to \$500,000, the growth would pass to your daughter free of gift and estate tax. So, one reason to make early gifts is to shift appreciation out of your taxable estate.



The second advantage to making early gifts is securing the inheritance and safeguarding resources that can be used for support and education.

One way to transfer assets to a minor is with a custodial account. Although such a transfer is considered to be an outright gift, it is controlled by a third party until the child reaches the age of majority. The donor should not be the custodian. One disadvantage to such a gift is that the child may not be mature enough to handle large amounts of wealth when he or she turns 18.

An alternative way of transferring property is through the use of a trust. This allows the donor to place restrictions on the purpose, amount and timing of distributions. If certain IRS requirements are met, the donor may make annual exclusion contributions to the trust with no tax consequences. If the donor's spouse joins in the gift, that amount doubles to \$24,000.

An independent trustee, such as Virginia Fiduciary, PLC, should be considered to manage the trust assets until the trust terminates.