

# Custodial Accounts for Kids Under Age 21

Revised 2004

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# Montana Uniform Transfers to Minors Act

- 1985
- 1997 amendments



# Minor



- A person who  
has not reached  
the age of 21

# Transferor

- Person who  
transfers assets to a  
custodial account



# Custodian

- Manages property that  
has been *irrevocably*  
transferred to  
custodial  
account



**What assets can be transferred to a custodial account?**



## **Types of Assets**

- **Money**
- **Securities**
- **Stocks & Bonds**



## **Types of Assets**

- **Certificates of Deposit**
- **Savings Accounts**



## **Types of Assets**

- **U. S. Savings Bonds**
- **Real Estate**



## **Types of Assets**

- **Beneficiary of life insurance proceeds**



**Where can custodial accounts be established?**



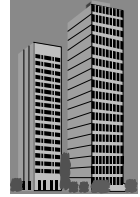
## Where to establish accounts?

- Bank
- Savings & Loan
- Credit Union



## Where to establish accounts?

- Trust company
- Mutual fund company
- Brokerage firm



## Whom should I designate as custodian?



## Custodian

- Transferor
- Another adult
- Trust company



## Custodian Rules

- No joint custodianships are allowed



## Alternate Custodian

- Substitute
- Successor



**What is the wording used on a custodial account?**



## **Wording**

- “As custodian for *(name of minor)* under the Montana Uniform Transfers to Minors Act”

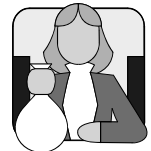


**What happens to custodial assets when child turns 21?**



## **Custodian Responsibilities**

- Close account
- Transfer assets to child



**What is the tax effect of a custodianship?**



## **Tax Impact**

- Custodianship
- Not considered a separate taxpayer



## Taxable to child

- Unearned income

- Interest from CD
- Dividends from stock



## Kiddie Tax Under 14

- Unearned income up to \$1,400

- First \$700 taxed at kids' zero bracket
- Next \$700 15% rate



## Kiddie Tax



- Unearned income more than \$1,400

- Taxed to child at parent's bracket as long as child under age 14

## Child--age 14

- Tax based on child's income tax bracket

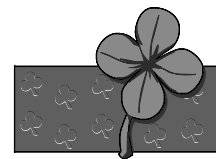


What if I need money that was transferred to the custodial account?

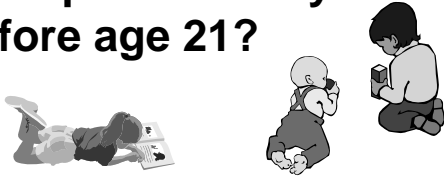


## Tuff luck

- Decision is irrevocable
- Funds can't be taken back by transferor



**What happens to assets in custodial account if a child passes away before age 21?**



**Distributed by Montana law**

- Child's heirs
  - If not married & no children
  - Parents



**Distributed by Montana law**

- If no parents living
  - Brothers
  - Sisters



**Distributed by Montana law**

- If no siblings alive then their descendants
  - Nieces
  - Nephews



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