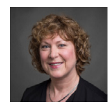
Four Ways You Can Gift Money to Children

There are multiple strategies and accounts that can be used for gifting money to children.



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KEY INSIGHTS

- Education costs can be paid for by funding 529 accounts or by paying the institution directly for tuition expenses.
- Setting up a Roth IRA or custodial IRA can help a child learn about long-term investing, particularly if you choose to match contributions.
- For college savings plans managed by T. Rowe Price, the gift-giving process is easy. You can conveniently gift online with the **GoTuition®** gifting portal.

When it comes to shopping for children in your life, it may be hard to find the perfect gift. But some of the best gifts for kids are not wrapped in shiny paper and bows.

Helping your younger loved ones financially is one gift that will always fit. Here are four ways you can make a difference for a grandchild, niece, nephew, or any other child in your life.

1. Contribute to a 529 college savings plan.

Money in a 529 college savings plan grows tax-deferred, and distributions are tax-free when used for qualified educational expenses. The money can be used for tuition and fees; room and board; books, supplies, and equipment required for enrollment or attendance; and computer and technology needs at nearly any college across the country.

- Individuals can contribute up to $16,000 in 2022 and $17,000 in 2023 per beneficiary ($32,000 and $34,000, respectively, for married couples “splitting” the gift per person) to qualify for the annual federal gift tax exclusion.
- What’s unique about a 529 plan is that individuals can “front-load” contributions. This means you can contribute up to five times the annual federal gift tax exclusion amount in the first year but account for it over five years. For example, if you contribute $85,000 in 2023, you can receive the gift tax exclusion each of the next five

years for $17,000 per year. However, you cannot make any additional gifts to the same beneficiary during that time. If you are splitting the gifting with your spouse, you can contribute up to $170,000 in one year.

- Just about anyone can contribute to or open a 529 account on a child's behalf, so grandparents, other relatives, and even close family friends may use them to give the gift of education.

For college savings plans managed by T. Rowe Price (T. Rowe Price College Savings Plan, Maryland College Investment Plan, and Alaska 529), you can conveniently gift online with the **GoTuition®** gifting portal by asking the account holder to send you a link to the gift recipient's profile. The gift-giving process is simple and easy to follow. Log in to your account for access to the **GoTuition** gifting portal.

2. Pay their college tuition directly to the institution.

There are advantages to giving to the institution directly versus gifting to a child. The benefit of paying the school directly is that the amount doesn't count toward the annual gift tax exclusion limit, and there is no restriction on how much you can pay. Keep in mind that payments can only be made for tuition, and the amount of the payment may impact the student's financial aid eligibility in future years.

3. Put money toward a Roth IRA.

If the child has any earned income from a summer, part-time, or full-time job, he or she can open a Roth IRA, or you may be able to fund a custodial (minor) Roth IRA. A Roth IRA provides future growth opportunity and flexibility. While there is no tax break upfront, a Roth IRA provides tax-free income in retirement. Contributions can be taken out tax-free at any time. And withdrawal of earnings can be made penalty-free in some circumstances prior to age 59½.*

Want to go the extra mile? Offer to match each dollar that the child contributes to a Roth IRA (up to the IRS limit). Or you can simply fund the account in total up to the allowable amount. That way, the child can experience the value of saving for a financial goal without contributing a sizable portion of what was earned. It's a terrific opportunity to teach important lessons with money and the value of saving toward a goal.

Here are a few additional things to keep in mind with Roth IRAs:

- For 2022 and 2023, contribution amounts are the lesser of his or her earned income or $6,000 and $6,500, respectively.
- Depending on the financial institution, there may be an age requirement and account minimum to open a Roth IRA.
- Roth IRA assets do not factor into the federal financial aid formula. If money is withdrawn from the account to pay for college expenses, the income will be considered in the eligibility process in future years.

4. Give financial assets through a Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) custodial account.

These accounts allow you to gift and transfer any amount of money, securities, and even property to a minor. While the funds in UGMAs and UTMAs can be used for any purpose later in the child's life, it's important to note that:

- These accounts may not be as tax-advantaged as you may think. The child's income may be subject to

* Withdrawals of earnings from Roth IRAs can be made penalty-free if the account has been open for 5 years or more and you are age 59½ or the money is used for exceptions such as qualified higher education expenses, a first-time home payment up to a lifetime limit of $10,000, certain unreimbursed medical expenses, and other situations.

the “Kiddie Tax,” which outlines the taxability of unearned income (e.g., dividends, interest, and capital gains). Generally, the minor child’s unearned income over $2,300 for tax year 2022 and $2,500 for tax year 2023 may be taxed at the parent’s marginal federal income tax rate. It might be a good idea to consider investments that are tax-efficient.

- Any contributions to the account are considered irrevocable and subject to the annual federal gift tax exclusion limits.
- Although you may be the custodian of the account, you do not own the assets and can only take money out to cover expenses for the child, a minor who is considered the beneficiary.
- At the “age of majority,” as determined by your state (usually age 18 or 21), the beneficiary gains control of the account and can use the funds any way they choose. At this point, the account will likely need to be reregistered in their name. This does not happen automatically.
- There could be a significant impact on federal financial aid eligibility as the assets in the account are considered the child’s.

If you’re considering any of these ideas, be sure to do your own research to fully understand the pros and cons of each option. Make sure to consult with your financial institution, advisor, or tax expert before taking any next steps. There are many ways to give to the children in our lives. Why not consider a gift that could provide returns for a lifetime?

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Important Information

Please note that a 529 plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. You should compare these plans with any 529 college savings plans offered by your home state or your beneficiary's home state. Before investing, consider any tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in the home state's plan. Tax benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distributions, or other factors, as applicable.

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