Florida Legislature: Financial "Age of Maturity" Now as High as 25 for Certain Transfers to Minors

Historical Perspective

Last year Florida joined a small group of states that have recently revised the age of maturity to 25 from 21 for a type of financial account families often use to transfer funds to minor children. The change creates more opportunity for children to mature before taking full responsibility for spending and investing.

The accounts in question are called Uniform Transfers to Minors Act (UTMA) accounts. They have existed in most states since the mid-1980s and were a primary college savings mechanism prior to the introduction of 529, Coverdale, and prepaid plans. What sets UTMA accounts apart from education-specific accounts is their flexibility. They can hold multiple types of securities and be used for any purpose.

Many families fund UTMA accounts for children as a way to save for college, provide for a future down payment on a home, get a financial start on life, or simply to reduce the parent's taxable estate through annual gifting.

Families may now be more inclined to incorporate UTMA accounts into their estate plans given the potential for funds to be held by a custodian until the child reaches age 25.

Understanding UTMA Accounts

UTMA accounts may be either bank or brokerage accounts established for the benefit of a minor. They allow for the management, supervision and control of assets on behalf of minor children. Assets in these accounts belong to and can be used for the benefit of the minor, but are temporarily controlled by a custodian.

The word "custodian" is a key distinguishing factor for UTMA accounts versus trust funds, which require an attorney to establish. UTMA accounts are easy to establish—no attorney needed—and the donor can serve as custodian. Assets in the account are held in the custodian's name until the child reaches the age of maturity, at which time the assets come under the child's full control.

The first $1,050 of income from these accounts is tax-free. The next $1,050 is taxed at the child's tax bracket. Income above $2,100 is taxed at the parent's tax bracket. A separate tax return for the child may be required.

Following are key advantages and potential disadvantages of UTMA accounts as wealth transfer tools. For some donors, the increase in the age of maturity may assuage concern about several of the disadvantages.

Advantages

» Easy to set up
» Can own multiple types of securities
» Management of these assets can be used as a tool for financial literacy
» Assets are controlled by parents or guardian
» Distributions can be made for the benefit of the child
» There are no contribution limits and can qualify for the annual federal gift and lifetime exclusions
» Assets are creditor-protected until the child's age of maturity

Disadvantages

» Each UTMA account can only have one minor beneficiary and one custodian at a time; while beneficiaries cannot be changed, custodians can be updated
» Assets may have an adverse impact on college financial aid decisions
» If the custodian and donor are the same person and he or she passes away before the minor beneficiary reaches the age of maturity, the value of the assets will revert back to the donor's taxable estate for tax calculations
» Upon reaching the age of maturity, the beneficiary can spend the money any way he or she wants and the assets are no longer creditor-protected

Florida Statute 710.123

Effective July 1, 2015, Florida Statute 710.123 allows the custodian of a UTMA account to delay effective control of the assets until age 25 rather than the automatic transfer of control when the beneficiary turns 21.

However, the beneficiary does get a chance to withdraw funds at age 21 if desired—but only during a short window of time. The custodian needs to provide written notification to the minor that on his or her 21st birthday a 30-day window commences during which the child can terminate the UTMA and/or withdraw some of the money in the account. This has to be done at least 30 days prior to their birthday or up to 30 days after. If nothing is done within the 30-day window, the UTMA status can be deferred until age 25.

For families that use UTMA accounts to gift money to their children, extending the age that these accounts remain under the control and supervision of a parent or guardian can provide an extra layer of comfort and provide more time for children to mature to be able to successfully handle the transition to managing wealth.

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