It is natural to want to provide for children, grandchildren, and other family or friends who are younger. When those potential beneficiaries are under the age of 18, however, you need to take some extra steps with your estate plan to ensure that they receive the full benefits that you intend to give.

Your Plan Could Involve a Trust

Many people are suspicious of trusts because they think trusts are unnecessarily expensive and complicated. While some trusts do deserve this reputation, other trusts can be quite simple and easy for a family member to manage.

A trust is a legal entity that holds property for someone. The person named as trustee manages the property you put into the trust, but they don't use it for themselves. Instead, they oversee management and distribution to the beneficiary.

Your gift to a minor can be put into a trust to allow an adult to manage the property until the minor reaches a certain age or another milestone occurs. The trustee can still spend money on the beneficiary even if the beneficiary is still a minor. The minor will not have direct access to funds in the trust without going through the trustee. This prevents them from wasting assets due to inexperience or predatory practices by creditors.

Texas Uniform Transfers to Minors Act (TUTMA)

Texas law protects minors by allowing assets gifted to minors to be held in a special custodial account until the recipient reaches the age of 21. Since minors are not legally allowed to own property, the property they receive would ordinarily have to be under the control of their guardian or a trustee.

The custodian of a TUTMA account is bound by some of the same rules as a trustee. They have a duty to manage the account responsibly and in the best interests of the minor. A TUTMA account is less complicated than a trust. However, the recipient may gain access to account funds all at once with no control when they turn 21, so if that recipient lacks the maturity to manage the money, it could be subject to abuse or predatory practices of others.

To make a gift through a TUTMA account, the gift is named to the custodian for the benefit of the beneficiary.

Tuition Plans

Parents and grandparents also frequently make gifts to minors through the Texas Guaranteed Tuition Plan or federal 529 plan. Both plans provide ways for minors to accumulate funds that grow tax-free so long as those funds are used for higher education. The 529 plan offers more flexibility, but the Guaranteed Tuition Plan provides

Talk to an Estate Planning Attorney About the Best Options for Gifts to Minors

When all components of your estate plan coordinate together, you gain the best advantages for yourself as well as all members of your family. Your estate planning attorney can help you take advantage of tax benefits to minimize gift and estate tax liability. Your attorney can also help you take steps to protect your loved ones and ensure that your gifts are used for the purposes you intended. To talk to the team at the Nordhaus Firm about your choices when it comes to gifts for minors, just give us a call at 214-726-1450 or contact us online.