Holiday Gift Giving

by Judy Loy, ChFC®, RICP®

As I write this, it is mid-October 2016 and the leaves are changing color. Even as early as this – before Halloween or Thanksgiving – I spotted Christmas items in some stores last week.

I know many children that have too much 'stuff.' The toys overflow the house and some sit idle after Christmas morning. Instead of giving more 'stuff', think about giving something that will have a longer benefit. No, I am not suggesting becoming a Scrooge. I am suggesting that you gift something that will be worth more as your children and grandchildren grow older rather than an item that may be quickly forgotten. Split your gift amount between the here and now and their future. The opportunity to add money to a child's account once a year or more (birthdays, Christmas, etc.) can pay large dividends. Forgo some of the 'stuff' and invest for your childrens' or grandchildrens' college, future home or wedding instead.

Providing investments for children when they are young can also teach a powerful lesson in priorities. Minors follow your example, so while providing them with a brighter future, you are also illustrating that investing and saving for the future is a priority.

Gifting to a minor can be done through a Uniform Gift to Minor's Account (UGMA). An adult (not necessarily the donor) must be named the custodian on this account and will retain investing authority and oversee account use for the child until the minor reaches the age of majority, which is age 21 in Pennsylvania. The downside is that the money is used at the "child's" discretion once he or she reaches the age of 21 and takes over the account.

If the child is likely to go to a private school, there is another good option. A Coverdell Education Savings Account (ESA) can be used for qualified expenses for elementary, secondary or higher education school expenses. The maximum annual contribution is $2,000 and the ability to contribute is limited by the parents' adjusted gross income (AGI).

Given the rising cost of higher education, if you would prefer to save more for college, 529 Savings Plans have become very popular. 529 plans permit an owner to retain control of the assets inside the plan and name the beneficiary for the account which is usually the future college student. The owner can even change the beneficiary within the same family. The contribution limitations are limited to the annual gift amount, which is $14,000.

If your children are grown, there are other opportunities to assist them. You can open or contribute to a Roth IRA or traditional IRA in the name of a child. Since your children may be financially busy saving for a house, paying for college or a new car, they may be unable to max out their retirement. Your children not only get the power of your gift later in retirement, but they may also get a tax deduction on an IRA contribution.

Many accounts allow for multiple donors to contribute to the same account. Grandma, Uncle and Dad can all contribute to the same account and make it a family holiday tradition.

There are many pros, cons and restrictions to investing for a minor or an adult child. Consult with a financial advisor to find the best fit for you and your whole family.