

EquiTrust Life Insurance Company®

Guidelines for Custodial Accounts as of 09/2019

A fixed annuity contract may be established for a minor under the Uniform Gift to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). The establishment of an UGMA/UTMA contract allows someone to make gifts to a minor without setting up a trust. The transfers made to a contract of this type are considered an irrevocable gift to the minor.

Eligibility Requirements

- A contract may be established for any child under the age of majority. The age of majority is usually 18 or 21, but in some states is age 25.
- An adult is appointed as custodian to manage the contract for the benefit of the minor until the child reaches the age of majority as defined by state laws. Upon reaching the age of majority, the child gains control of the contract. The custodian of the contract must act prudently when managing the contract and/or proceeds of the contract. It may be preferable to name someone other than the donor as custodian otherwise the contract may be included in the donor's gross estate for taxation purposes.
- No income restrictions exist.
- Anyone may make a contribution to the contract.
- No contribution limits exist (outside of the product's specific limits).
- Under the annual federal gift-tax exclusion, each donor may generally make gifts up to the federal gift-tax exclusion limit per child without federal gift-tax consequences. Annual contributions to an UGMA/UTMA contract must be made during the calendar year.
- The child must be named as the annuitant. The estate of the minor is named as the beneficiary.

Tax Considerations

- All earnings are reported to the IRS under the child's social security number.
- Children under the age of 19 must pay income tax on their unearned income above a certain amount. (Full-time students under the age of 24 also are subject to this rule.) In 2018, amounts over \$2,100 are subject to this rule.
- There are no special taxation rules for UGMA/UTMA contracts – the rules applicable to minors with unearned income apply.

EquiTrust and its representatives are not tax advisors. Any questions regarding the taxation of an annuity contract should be referred to a tax advisor.

Other Considerations

- The contract may be included in the child's assets when determining financial aid eligibility.
- Once the child reaches age of majority, the contract proceeds can be used for any purpose and the child is not limited in using the money. The money is not required to be used for educational purposes – regardless of the wishes of the donor.
- The custodian is allowed to withdraw funds according to the terms of the contract, but the funds must be used for the benefit of the minor.