



# Self Directed IRAs for Minors

## Custodial Roth and Traditional Accounts

### Who Qualifies?

- ✓ The minor must be under 18
- ✓ The minor must have “earned income”
- ✓ The IRA account will become property of the minor when the minor reaches age of majority (18 or 21 depending on state)

### Rules and Requirements

#### Age to start an IRA:

There is no minimum age to contribute to an IRA

#### Earnings Requirement:

Minors may contribute up to 100% of their earned income, not to exceed the annual contribution limit.

### Fee Schedule

Annual Account Membership: **\$135**

- **NO additional IRA fees apply**
- The minor may make unlimited investments *(The investments must partner with your IRA Club IRA account)*
- Funds in the account are FDIC insured
- Minimum cash balance in the IRA account: \$500



### How to Pay a Minor



If you own a business such as an LLC, it's easy. The business simply pays the child as an employee and issues a **W-2** to the child. *(Preferred way)*



Another option is to pay the child and issue a **Form 1099**. This will show the child was paid, however, may require the payment of Self Employment Tax. *(Self Employment tax isn't awful, however, paying with a W-2 can avoid it)*

### Notes

1. The amount you pay to the minor should be similar to the amount you would pay a non-family member for the same task.
2. What type of work may I pay my child for? How about stuffing envelopes, shredding papers, filing, social media, etc. Make the “tasks” reasonable for their age.  
*Example: Your two-year-old should not help you move your office, but she or he can be a model on your website or business cards.*
3. Generally, household chores may not be included. *(Sorry, you can't pay Jr \$6,000 to straighten his room)*
4. The above assumes the child has less than \$350 of “unearned income”. Hence, if Grandma gave Jr. 1500 shares of General Electric stock, which is paying a dividend of more than \$350 a year, please see your tax professional regarding Kiddie Tax.



# FAQs



## Custodial Roth and Traditional Accounts

---

### What type of IRA should the minor consider?

Consider a Roth IRA so that 100% of the account will be tax free for life.

### Can the minor's IRA "partner" with my IRA to make an investment?

Yes.

### Can the funds held in the minor's IRA be used to pay for their college education?

**Yes.** The funds held in the minor's IRA can be used to cover qualified higher education expenses, at any educational institution that is eligible to participate in the Department of Education's student aid programs.

*(An IRA is designed for retirement planning. Even though you may take a distribution to pay for qualified education, it will still be treated as a distribution, not as a loan. If the IRA distribution is to pay for qualified education, the IRS waives the 10% early distribution penalty)*

If saving for a collage education is the main goal, you may also want to consider a 529 Plan. In general, if your goal is to:

- **Build long term wealth – Consider a Self Directed Roth IRA**
- **Pay for college – Consider a 529 Plan**

### Can a minor have both a 529 Plan and a Roth IRA?

YES!

### Can the IRA account of the minor be transferred to my account in the future?

**No.** All contributions made into the Custodial IRA are considered irrevocable transfers for the benefit of the minor.

### Can a minor make contributions to an IRA?

**Yes.** There is no minimum age requirement.

### Must the minor file an income tax return? (2019)

There is no requirement to file an income tax return if a person is:

- ✓ Single
- ✓ Under age 65
- ✓ Earns less than \$12,000

Hence, based on the above, the minor may:

- ✓ Earn \$6,000
- ✓ Receive a W-2 or 1099
- ✓ Make a \$6,000 IRA contribution
- ✓ Not file an income tax return for that tax period

