529s, UGMAs And Bonds: How To Gift Assets To The Grandkids

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When a client's first grandchildren are born, advisors may be asked for help transferring assets to the newest family member. The wish to start building a nest egg for grandkids is noble and wise, but gifting assets can be complicated and shouldn't be undertaken thoughtlessly, advisors warn.

Here are a few suggestions and rules they say you should bear in mind.

529 College Savings Plans

Since 1996, parents and grandparents have had the option of giving to a tax-advantaged 529 college savings plan for youngsters. Named after Section 529 of the Internal Revenue Code, the plans have expanded in recent years to cover a wide range of educational expenses. Besides postsecondary tuition and supplies such as books and computers, they can also be used for K-12 education, apprenticeship programs and—thanks to the SECURE 2.0 Act—student loan repayment and certain Roth IRA contributions.

529 plans are a great way to transfer assets to grandchildren," said Martha Kortiak Mert, chief operating officer at Saving For College, an advocacy and information organization based in Miami. "Many grandparents see this as a way to leave a legacy, helping ensure their grandchildren can secure a college degree while reducing the need to take on future student loans."

The plans are state-sponsored savings accounts that can grow tax-free and allow tax-free withdrawals for qualified educational expenses. Investment options vary state to state, as do the rules and fees. 529 plans can either lock-in tuition at a specific school or be used more generally as the beneficiary chooses. In most cases, you don't need to live in the state that sponsors the plan, though there may be tax benefits if you do.

Federal gift taxes will be due, however, if you give $19,000 or more in 2025 to any one beneficiary, or $38,000 for clients who file jointly. (Alternatively, clients can give a lump sum of up to $95,000, or $190,000 per couple, using five-year gift tax averaging, sometimes called superfunding.) These amounts are widely expected to decrease in 2026.

Nevertheless, clients who have more than one grandchild "can open and fund separate 529 plans for each grandchild up to these amounts," said Mert. "This allows grandparents to reduce their federal taxable estate while helping ensure their grandchild's future education."

Perhaps best of all, she added, grandparent-owned 529 accounts don't count

as student assets on the federal financial-aid application known as FAFSA (or Free Application for Federal Student Aid). Therefore, the funds don't weigh against the student's financial-aid consideration, while a parent- or student-owned fund would. "This means that withdrawals from a grandparent-owned 529 plan that are used to help pay for the grandchild's college expenses will not have a negative impact on determination of federal financial-aid eligibility," she said.

UGMA/UTMA Custodial Accounts

Despite the many advantages of a 525 plan, what if the grandchild doesn't want to go to college?

This process should always start with a discussion surrounding your [client's] end goals," said Kyle Kraus of AlphaCore Wealth Advisory in La Jolla, Calif. "Is the money for a nest egg or is it necessary for school? Is the gifting a part of an estate reduction strategy? Will the parents' future income preclude any likely future aid anyway? The answers to these questions will profoundly affect what we might consider to be the best solution."

Another question to ask clients, he said, is how much control they want to have over the assets. Though a 529 plan is controlled by the donor until the beneficiary takes distributions, the funds cannot be used for any nonqualified purpose, at least not without incurring a penalty. This ensures that the grandchild won't blow the money on a sports car, say, but it also means that the parent or grandparent can't repurpose the funds if some other need arises. "This is where other savings mechanisms might be considered," he said, "to help clients avoid getting locked into a singular solution or account type when facing multiple unknowns."

Clients who want more flexibility over how the funds can be spent might prefer a custodial account such as a UGMA (Uniform Gift to Minors Act) or UTMA (Uniform Transfer to Minors Act) account, he said. The first is exclusively for cash or securities; the latter can hold almost any type of asset, including real estate.

Custodial accounts, he said, can be spent on practically anything that benefits the child, and the earnings are taxed at the child's tax rate, not the custodian's. So if the child were to need emergency surgery, the custodian can draw on the account to pay the medical bills. The child will have full access to the funds upon reaching adulthood, which is either 18 or 21, depending on the state. Moreover, because the money is technically owned by the child, it will count against financial-aid consideration—unless the account is emptied beforehand.

Bonds And Trusts

Advisors further note that how a client moves assets to a loved one can make a big difference. For instance, **Janet Fox, an LPL Financial advisor and president of ACH Investment Group in Raleigh, N.C.**, suggested

that gifting appreciated stock can be better than handing over cash. “This would remove that capital gain from your portfolio and reduce your tax liability from your estate,” she said.

Other clients might prefer to gift a bond to grandchildren, an asset that won’t reach maturity until the grandchild is older—perhaps 30. “Bonds are ideal if you want a conservative, predictable gift for a specific future expense,” said Bill Collopy, senior financial advisor at Los Angeles-based Signature Estate and Investment Advisors. “They also encourage long-term saving by ensuring funds are available at adulthood while protecting against market volatility.”

He cited Series I and Series EE savings bonds as good options since interest is tax-deferred and may be tax-free if used for education. Series I bonds earn a fixed interest rate for the life of the bond and a variable inflation rate that adjusts every six months; they have a 20-year initial maturity that can be extended for another 10 years. Series EE bonds are guaranteed to at least double in value in their first 20 years, and they continue to earn interest for the next 10 years. Both are issued by U.S. Treasury.

Interest on these bonds is taxable each year,” said Lisa Featherngill, national director of wealth planning at Comerica Wealth Management in Winston-Salem, N.C., adding that Series I bonds offer “an exception if income is below a certain threshold and the funds are used for education expenses.“

Though bond yields typically pale in comparison to long-term stock returns, they can offer clients peace of mind, especially during periods of market volatility, advisors say. “A bond may be a good solution, based on the risk tolerance of the receiver,” said Elaine King, director of Family and Money Matters in Miami. “It depends on the life lesson you want to give your grandchild.”

Bonds, she said, can be a good primer on safe investing without “exposing [the grandchildren] to the volatility of the stocks.”

Other clients may prefer to set up a trust that names grandchildren as beneficiaries. “Trusts can provide more control over how and when the assets are used,” said Jaime Eckels of Plante Moran Financial Advisors in Auburn Hills, Mich. They can also offer tax benefits, she said. By putting assets into a trust, clients can effectively remove them from their estate, shielding their heirs from estate taxes after the client’s death.

If the grandchildren are old enough to be earning a living, grandparents might contribute to a Roth IRA for the grandkids, she said. The annual contribution maximum in 2025 is $7,000, and early withdrawals will incur penalties and taxes. But Roth IRAs offer tax-free growth and tax-free withdrawals in retirement. The grandkids, she said, can “sit back and enjoy the magic of compounding.”

Important Disclosures:

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No investment strategy assures a profit or protects against loss.

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Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

Series I bonds are guaranteed by the US government as to the timely payment of principal and interest and offer a fixed rate of return and fixed principal value. Minimum term of ownership applies. Early redemption penalties may apply.

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