



# Self-Directed IRAs for Minors

## Who Qualifies?

- ✓ The minor must be 17 or younger.
- ✓ The minor must have earned income.
- ✓ The IRA account will become property of the minor when the minor reaches age of maturity.

## Rules and Requirements

### AGE TO START AN IRA:

There is no minimum age to contribute to an IRA.

### EARNINGS REQUIREMENT:

Minors may contribute to 100% of their earned income, up to the annual contribution limit: \$7,000 for 2024.

For example, if Hunter gets a summer lifeguard job at his local pool and makes \$4,000, the maximum 2024 contributions for Hunter will be \$4,000.

## Fee Schedule

Annual Account Membership: **\$195**

- \* No additional IRA fees apply
- \* The minor may make unlimited investments
- \* Cash in the account is FDIC insured
- \* Minimum cash balance in the IRA account: \$500



## Paying 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 has paid, however, may incur 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. Tasks should be age appropriate. *Example: Your two-year-old shouldn't help you move your office, but can be a model for your website or business cards.*
- 3 Generally, household chores may not be included. *(Sorry, you can't pay Jr. \$7,000 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.

# IRA CLUB

# FAQs

## 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 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 college 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 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.

## MUST THE MINOR FILE AN INCOME TAX RETURN? (2023)

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

- ✔ Single, under age 65, earns less than \$11,000

Hence, based on the above, the minor may:

- ✔ Earn \$7,000
- ✔ Receive a W-2 or 1099
- ✔ Make a \$7,000 IRA contribution
- ✔ Not file an income tax return for that tax period
  - \* Please remember to always work with your CPA.

