



THE COUNTDOWN TO CONTROL: PREPARING YOUR FAMILY WHEN CUSTODIAL ACCOUNTS REACH TERMINATION

Luke A Palmer, CFP®, AAMS®, CRPS®, AWM®, Owner and CEO | 8 January 2026

When your minor child reaches the age of termination for their custodial account (18, 21, or 25, depending on your state), they gain complete, unrestricted control over every dollar in that account. This isn't a gradual transition or a conversation about readiness. It's a legal transfer. The moment your child reaches the **custodial account termination** age established by your state, you step aside, and they step into full ownership of investment accounts that may have taken decades to accumulate.

For families engaged in sophisticated wealth management, this transition represents one of the most consequential moments in multi-generational planning. Every contribution you made to a UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act) account was an irrevocable gift; the assets became your child's property the moment funds entered the account. The question isn't whether your child will receive these assets; that's already been decided. The question is whether they'll be prepared to steward them wisely.

UNDERSTANDING THE AGE OF TERMINATION TIMELINE

A custodial account is a financial account established for a minor child and managed by an adult custodian until the minor reaches the age of termination. While the custodian controls investment decisions and withdrawals during the child's minority, the assets legally belong to the child from the moment they're contributed. This irrevocable gift structure distinguishes custodial accounts from other wealth management vehicles, in which donors retain greater control.

The age of termination varies significantly by state, creating a patchwork of timelines that families must navigate carefully. Most states set the age of termination at 21, though several permit earlier or later transfers depending on how the account was established.

Representative state termination ages include:

- **States with age 18 termination:** California, Kentucky, and South Dakota (for standard transfers)
- **States with age 21 termination:** Texas, New York, Colorado, and most other jurisdictions
- **States permitting extension to age 25:** California (for testamentary transfers), Nevada, Florida, and Alaska

For families establishing new custodial accounts, selecting a state that permits termination at a later age (where legally permissible) can provide additional years for the beneficiary to mature before assuming control. However, families with existing accounts are generally bound by the terms established at account creation.

WHAT TYPES OF ASSETS CAN UGMA AND UTMA ACCOUNTS HOLD?

Understanding the distinction between UGMA and UTMA accounts matters significantly for families with diverse asset portfolios. UGMA accounts, established under older legislation, are limited to financial assets: cash, stocks, bonds, mutual funds, and insurance policies. UTMA accounts, adopted by most states as the successor framework, permit a substantially broader range of holdings.

UTMA accounts can hold virtually any asset type, including real estate, royalties, patents, and fine art. This flexibility makes UTMAs particularly valuable for affluent families seeking to transfer appreciating non-liquid assets to the next generation. A family with a valuable art collection, for instance, could transfer ownership of specific pieces to a minor child through a UTMA, potentially removing future appreciation from the parents' taxable estate.

However, this flexibility creates complexity at the age of termination. Transferring control of mutual funds or stocks to a 21-year-old is administratively straightforward. Transferring ownership of real estate or fine art requires additional legal documentation, potential appraisals, and may trigger property transfer considerations that families should anticipate well before termination arrives.

WHY DOES FINANCIAL READINESS MATTER AT TERMINATION?

The data on young adult financial preparedness reveals a significant gap between asset ownership and financial capability. According to the TIAA Institute-GFLEC Personal Finance Index (2025), Gen Z demonstrates a financial literacy rate of just 38 percent, the lowest among all generational cohorts and substantially below the 55 percent rate observed among Baby Boomers.¹

This literacy gap manifests in practical ways. Bank of America's 2025 Better Money Habits study found that 55 percent of Gen Z adults lack sufficient emergency savings to cover three months of expenses, despite 72 percent reporting that they've taken active steps to improve their financial health.² The intention exists; the execution often falls short.

Perhaps most striking: research from Charles Schwab indicates that more than half of young adults (53 percent) expect to receive an inheritance from their parents, while only 21 percent of Americans actually received an inheritance of any kind between 1989 and 2007.³ This optimism, unanchored by experience or preparation, can lead to financial decisions that erode wealth rather than preserve it.

STRATEGIC OPTIONS BEFORE THE AGE OF TERMINATION

While UGMA and UTMA contributions are structured as an irrevocable gift to the minor child, families retain several strategic levers to optimize outcomes before assets transfer to the beneficiary.

Spend Down for Qualified Purposes

Custodians may withdraw funds for expenditures that benefit the minor child, including education, enrichment activities, medical expenses, and other qualifying costs. Strategic spending during the custodial period reduces the lump sum available at the age of termination while directing resources

toward developmental priorities. A custodial account funding four years of private school tuition, for instance, delivers educational value while right-sizing the remaining balance for a young adult's reasonable management.

Convert to a Custodial 529 Account

Families prioritizing educational funding may convert UTMA assets into a custodial 529 account. This strategy offers three potential advantages: improved financial aid treatment (a 529 account is treated at lower rates than a custodial account under federal methodology), extended custodial control, and significant tax advantages for qualified education expenses. However, the conversion requires liquidating custodial account investments, which potentially triggers capital gains and income taxes. Additionally, the converted 529 account remains the minor child's property. The decision between maintaining a custodial account versus converting to a 529 account requires careful analysis of each family's specific circumstances.

Coordinate with Broader Estate Architecture

For families whose circumstances have evolved since establishing custodial accounts, incorporating terminating UTMA's into a comprehensive wealth management strategy can mitigate their limitations. Some families establish irrevocable trusts that the beneficiary can elect to fund upon reaching majority, providing asset protection and professional management while preserving the transfer. Others coordinate custodial account distributions with broader gifting strategies detailed in their overall wealth transfer framework. As we've explored in our analysis [Why Your Estate Plan Might Not Protect Your Legacy](#), legacy planning requires regular reassessment as family circumstances evolve.

PREPARED VS. UNPREPARED: A SCENARIO ANALYSIS

Consider two hypothetical families, each with a \$250,000 UTMA account (invested primarily in mutual funds and index ETFs) reaching the age of termination when their child turns 21:

Factor	Family A: Prepared	Family B: Unprepared
Pre-termination education	5+ years of graduated financial conversations, account visibility, and investment education	Account existence disclosed at or near termination
Initial beneficiary action	Establishes investment policy, retains existing allocation, contributes additional savings	Withdraws 40% for vehicle, vacation, and lifestyle expenses
Five-year outcome (7% annual growth assumption)	Portfolio grows to approximately \$350,600	Remaining \$150,000 grows to approximately \$210,400
Wealth difference at age 26	\$350,600	\$210,400 (40% less)

The \$140,200 differential at age 26 compounds dramatically over a lifetime. This scenario illustrates why preparation, not just asset accumulation, determines intergenerational wealth management outcomes.

A FRAMEWORK FOR PREPARING YOUR CHILD FOR INHERITANCE

Financial readiness isn't achieved through a single conversation on the beneficiary's 20th birthday. It develops through years of graduated exposure, education, and practice. The following framework adapts to various family communication styles while establishing essential competencies.

Ages 12 to 14: Foundation Building

Introduce the concept that the family has established investment accounts for the child's future. Explain basic investment principles: ownership, growth, volatility, and time horizons. Discuss how mutual funds pool money from many investors to purchase diversified portfolios. Involve the child in age-appropriate financial decisions, such as budgeting for a family vacation, understanding household expenses, or managing a small allowance. The goal is to establish financial concepts before discussing specific dollars.

Ages 15 to 17: Visibility and Context

Share the custodial account's existence and approximate value. Explain how the account was funded, its investment strategy, and the age of termination timeline. Review statements together, discussing performance, asset allocation, and the relationship between risk and return. If the account holds mutual funds, explain expense ratios and diversification benefits. This transparency builds ownership while the custodial structure remains in place.

Ages 18 to 20: Graduated Responsibility

For families in states with later termination ages, this period offers structured practice. Consider allowing the beneficiary to recommend (but not execute) investment changes and explain your reasoning when you accept or modify their suggestions. Involve them in discussions with financial advisors. If they have earned income, help them open a Roth IRA to begin building tax-advantaged retirement savings independently. Establish expectations for post-termination behavior: maintaining an emergency fund, continuing education, and consulting wealth management professionals before major decisions. As discussed in our article [The Cornerstone of Financial Success](#), strategic planning transforms abstract wealth into meaningful life outcomes.

WHAT ARE THE TAX IMPLICATIONS OF CUSTODIAL ACCOUNT TERMINATION?

Custodial accounts carry specific tax treatment that affects contributions, the accumulation phase, and the post-termination period. Understanding these rules helps families maximize tax advantages while minimizing overall tax burdens across generations.

Federal Gift Tax Considerations

Contributions to custodial accounts qualify for the annual federal gift tax exclusion, currently \$19,000 per recipient for 2026 (\$38,000 for married couples electing gift-splitting). Contributions within these limits require no gift tax return and generate no federal gift tax liability. However, contributions exceeding the annual exclusion require filing Internal Revenue Service Form 709, the gift tax return, even if no tax is ultimately owed due to the lifetime exemption. For families making substantial transfers to a minor child's custodial account, tracking cumulative gifts is essential for accurate estate planning and to avoid unexpected tax burdens.

Income Taxes During the Custodial Period

During the custodial period, the Internal Revenue Service's kiddie tax rules govern how investment income is taxed. For 2026, the first \$1,350 of a minor child's unearned income is tax-free. The next \$1,350 is taxed at the child's rate. Any unearned income exceeding \$2,700 is taxed at the parent's marginal rate. For sub-ultra-high-net-worth families, this typically means that investment earnings above the threshold are taxed at the 37 percent federal tax bracket.⁴

This structure influences optimal custodial account investment strategy. Many families favor tax-efficient investments, including growth-oriented equities with minimal dividend distributions, municipal bonds (which generate tax-exempt income), and index mutual funds with low turnover. These approaches minimize current income taxes and reduce tax burdens while preserving growth potential.

After the Age of Termination

After termination, the account becomes a standard taxable brokerage account owned by the former minor. The beneficiary assumes full responsibility for tax reporting and payment, filing their own returns with the Internal Revenue Service and paying income taxes on dividends, interest, and realized gains. Embedded capital gains from the custodial period will eventually trigger taxation upon sale, making cost basis documentation essential. Families should ensure beneficiaries understand their new tax bracket and reporting obligations before the age of termination occurs.

Comparing Tax Treatment: Custodial Accounts vs. Roth IRA

Families sometimes ask whether a Roth IRA might serve their goals better than a custodial account. The key distinction lies in contribution requirements and access. A Roth IRA requires the minor child to have earned income, limiting contributions to the lesser of their earnings or the annual limit (\$7,000 for 2026). However, a Roth IRA offers superior tax advantages: tax-free growth and tax-free qualified withdrawals in retirement. Unlike custodial accounts, a Roth IRA does not automatically transfer control at the age of termination; the account remains subject to early withdrawal penalties until age 59½. For families whose children have earned income (from employment or self-employment), funding both a custodial account and a Roth IRA can provide complementary benefits: near-term flexibility through the custodial account and long-term tax-advantaged growth through the Roth IRA.

WHEN MULTIPLE FAMILY MEMBERS CONTRIBUTE

Affluent families often accumulate multiple custodial accounts for the same minor child. These investment accounts may be established by parents, grandparents, and other relatives, sometimes across different financial institutions with varying investment strategies and custodial terms. This fragmentation creates both administrative complexity and potential coordination failures.

When multiple donors contribute to a child's benefit, tracking federal gift tax exclusion utilization becomes critical. Each donor can contribute up to the annual exclusion amount without filing a gift tax return, but exceeding limits (even unintentionally) creates Internal Revenue Service reporting obligations and potential tax burdens. Families should establish communication protocols to ensure grandparents and other relatives coordinate their generosity.

Consolidating custodial accounts before the age of termination (or shortly thereafter) streamlines management, reduces costs, and ensures a coherent investment strategy. More importantly, coordination among contributing relatives prevents conflicting messages about financial values and expectations. A grandparent establishing a custodial account without the parents' knowledge, for instance, may inadvertently undermine carefully cultivated financial education efforts.

For families managing significant complexity across generations, the coordination frameworks described in [*The Virtual Family Office Revolution*](#) offer structured approaches to multi-generational wealth management oversight.

KEY TAKEAWAYS: PREPARING FOR CUSTODIAL ACCOUNT TERMINATION

1. **Know your timeline.** The age of termination ranges from 18 to 25, depending on state law and the account's establishment. Confirm your specific termination date and work backward to establish a preparation schedule.
2. **Understand the irrevocable gift structure.** Assets in custodial accounts belong to the minor child from the moment of contribution. You cannot reclaim these funds, making preparation (rather than prevention) the only viable strategy.
3. **Start conversations early.** Financial readiness develops over years, not months. Begin age-appropriate education by age 12 and increase transparency as the age of termination approaches.
4. **Consider strategic spending or 529 account conversion.** Using custodial assets for qualifying expenses before termination can right-size the balance for young adult management. Converting to a 529 account may extend control while providing tax advantages for education.
5. **Evaluate tax implications carefully.** Federal gift tax exclusions, income taxes under kiddie tax rules, and post-termination tax bracket changes all affect optimal strategy. Coordinate with tax professionals to maximize tax advantages and minimize tax burdens.
6. **Explore complementary vehicles.** For children with earned income, a Roth IRA provides additional tax-advantaged growth without the automatic control transfer at the age of termination.
7. **Coordinate across generations.** Multiple custodial accounts from different relatives can create administrative complexity, Internal Revenue Service reporting obligations, and conflicting expectations. Consolidation and family communication prevent fragmentation.

THE PATH FORWARD

Custodial account termination isn't a risk to be feared. It's a milestone to be prepared for. The assets you've accumulated, whether in mutual funds, individual securities, or even real estate and fine art held in UTMA accounts, represent not just financial value but an opportunity to shape the next generation's relationship with wealth. When approached thoughtfully, the transfer of custodial assets at the age of termination becomes the first chapter in your child's independent financial life: one built on education, values, and the confidence that comes from genuine preparation.

At Palmer Wealth Group™, we guide families through these consequential transitions as part of our comprehensive wealth management approach. Whether you're years away from termination and planning ahead or months away and seeking clarity, our team can help you develop strategies that honor both the wealth you've built and the beneficiary who will steward it forward.

Important Disclosures

This article is provided for informational and educational purposes only and does not constitute personalized investment, legal, or tax advice. The information presented reflects general principles and may not be applicable to your specific circumstances. Investment decisions should be based on an evaluation of your own personal financial situation, needs, risk tolerance, and investment objectives.

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The fees, expenses, and features of 529 plans can vary from state to state. In order to be federally tax free, earnings must be used to pay for qualified education expenses; non-qualified withdrawals may be subject to federal and state taxes and penalties. Fees, expenses, and plan features vary by state. By investing in a plan outside your state of residence, you may lose any state tax benefits.

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4. Internal Revenue Service. (2026). *Publication 929: Tax Rules for Children and Dependents*. Kiddie tax thresholds for 2026.

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