

Grandchild IRA Gift Idea

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If you have a young grandchild, we have a gift suggestion for you that can provide a lasting legacy between you and your grandchild.

Many teens and young adults work during the summer months, and the wages they earn qualify them to make a contribution to either a traditional or Roth IRA.

However, most young people are reluctant to fund an IRA account with their hard-earned summer income, and few are concerned with retirement, which is probably the last thing on their minds at their age.

This is incentive for a grandparent, or anyone for that matter, to gift the child money to fund an IRA. The maximum that can be contributed to an IRA is the lesser of the child's earned income or \$5,500 (the 2016 limit for an individual under age 50). Although that is the maximum amount, a lesser amount can be contributed.

If you take our suggestion, you will also need to decide whether the IRA should be a traditional or Roth IRA. Traditional IRA contributions are tax deductible, but the withdrawals at retirement are taxable. Most youngsters working during the summer months or part time year-round may not earn enough to even have any taxable income, and even if they do, the income is likely to be in the lowest tax brackets, so an IRA deduction would provide little if any tax benefit.

On the other hand, a ROTH contribution is not tax deductible and the distributions, including earnings, are tax-free at retirement, making it the best option in most cases.

Accomplishing this gifting will require cooperation from the child, as he or she will need to actually set up the IRA account so you can fund it. This may entail getting the child's parents involved as well. What you don't want to do is just make a check out to the child, who could then cash the check without actually putting the money into the IRA.

Your contribution to the IRA would be treated as a gift for gift tax purposes, but since the contribution amount would be below the annual \$14,000 (2016) gifting exemption, it would not be subject to any gift tax reporting unless additional reportable gifts were given to the child during the year.

Unfortunately, you won't get any benefit on your own income tax return for your generosity, but knowing you've made a long-term investment in your grandchild's future will probably be benefit enough. If you need assistance determining the contribution amount or the type of IRA, please give this office a call.