



THE IRA CLUB
79 W. MONROE
SUITE 1208
CHICAGO, IL 60603-4936

312-795-0988
FAX 888-600-6997
IRA CLUB.ORG

IRA Accounts for Your Children or Grandchildren

Rules and Requirements

Age limit to start an IRA:

There is no minimum age to contribute to an IRA.

Earnings Requirement:

A minor may contribute up to 100% of their Earned Income not to exceed \$5,500.
(Based on 2017, this amount will increase in the future.)

How does a minor establish “Earned Income”?

Someone (anyone) will need to hire and pay the minor. The payment should leave a trail such as issuing a W-2 or Form 1099.



What type of work might a minor do to earn their salary?

This depends on the minor’s age. For example; when they are very young they may be a model, (use their photo on your web site or in your marketing materials.) As they get older, they might do office work.

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?

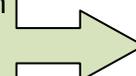
Yes.

Can the funds held in the child’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 is eligible to participate in the Department of Education’s student aid programs.

Please Note: An IRA is designed for Retirement Planning. Even though you can 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.

More Information
on the Reverse
Side



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

- To build Long Term wealth – Consider a Self Directed Roth IRA
- To pay for College – Consider a Self Directed 529 Plan
- Can a Minor have both a 529 Plan and a Roth IRA? - **YES**

When does ownership of the account transfer to my child?

The custodian, (the adult) controls the investment decisions made for the account of the minor. Typically, this responsibility transfers to the minor at the age of majority (18 or 21 depending on your State).

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.

Tax Notes

May a minor make contributions to an IRA?

Yes, there is no minimum age requirement: An individual may make a tax deductible IRA contribution up to 100% of earned income not to exceed \$5,500 (age 49 and under).

Must the minor file an income tax return?

There is no requirement to file an Income Tax Return if a person is:

- Single
- Under age 65
- Earns less than \$9,750

Hence,

Based on the above two items; the minor may:

- Earn \$5,500
- Receive a W-2
- Make a \$5,500 IRA Contribution
- Not file a income tax return for that tax period

IRC Section 219(f)(1)

For purposes of this section, the term “compensation” includes earned income (as defined in section [401\(c\)\(2\)](#)). The term “compensation” does not include any amount received as a pension or annuity and does not include any amount received as deferred compensation. The term “compensation” shall include any amount includible in the individual’s gross income under section [71](#) with respect to a divorce or separation instrument described in subparagraph (A) of section [71\(b\)\(2\)](#). For purposes of this paragraph, section [401\(c\)\(2\)](#) shall be applied as if the term trade or business for purposes of section [1402](#) included service described in subsection (c)(6). The term compensation ⁽¹⁾ includes any differential wage payment (as defined in section [3401\(h\)\(2\)](#)).