Custodial Roth IRA 2026 Key Rules

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✅ Eligibility

There is no minimum age — even babies can contribute if they have earned income.

A contribution can be made if a minor has earned income during the year. Eligible income includes formal employment (W-2) or self-employment. Activities like babysitting, petsitting, or mowing lawns qualify.

💰 2026 Contribution Limit

The contribution limit is the lesser of (1) 100% of the child's earned income for the year or (2) $7,500 — up from $7,000 in 2025.

Anyone can fund the contribution — parents, grandparents, family friends — as long as the total stays within the child's earned income limit.

🏦 Account Structure

A custodial Roth IRA is owned by the child but managed by a custodian (parent/guardian) until the minor turns 18 or 21, depending on the state.

The minor remains the beneficial account owner and funds must be used for the benefit of the minor.

📈 Tax Treatment

Contributions are made with after-tax dollars, grow tax-free, and are withdrawn tax-free in retirement.

Since most kids have low annual earnings, their income tax rate is already quite low or even zero — so the lack of a deduction is rarely a drawback.

Roth IRAs sidestep the kiddie tax entirely — earnings inside the Roth are never taxed, not to the child, not to the parent.

🔓 Withdrawals

Contributions can be withdrawn at any time, for any reason, tax-free since the money was already taxed.

- The 5-year rule applies: earnings withdrawn before age 59½ without satisfying the 5-year rule are subject to a 10% early withdrawal penalty and ordinary income taxes.
- For a first-home purchase, the account owner can withdraw up to $10,000 in earnings tax- and penalty-free.

⚠ Things to Watch

- Once the child reaches the age of majority (18 or 21 depending on state), they get full control of the account and could theoretically withdraw all funds for any purpose.
- Funds in a custodial Roth IRA are considered a student asset and are included in financial aid calculations.
- A gift tax return (Form 709) may be required if contributions plus other cash gifts to the child exceed $18,000 for the year.
- Self-employment income above $400 generally requires filing a return and paying self-employment tax (15.3% for Social Security/Medicare), even when no income tax is owed.

Bottom line: The custodial Roth IRA is a powerful planning tool for clients with working kids. The $7,500 limit is relatively easy to max for a teenager with a summer job, and the Roth's lifelong tax-free growth with no RMDs is enormously valuable when contributions have 40–60 years to compound — the math virtually always favors Roth for minors.

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