Is There Ever a “Right Time” to Add an Adult Child to Your Bank Account?

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If you ask neighbors or friends what they think about adding a child to a bank account, do not be surprised if many think it is an excellent idea, and either know someone who has done so, or plan on doing so themselves. On the other hand, if you search the internet on the same topic, you may find that almost every article written advises against it. So why the conflicting information?

Well, it seems that most friends and neighbors reach their conclusions with incomplete information at best, and with flat out bad advice at worst.

First, lets review why so many folks think adding a child to a parent’s bank account is a good idea (the “pros”)?

As the co-owner of a joint bank account, an adult child will have the same right to the money as the parent. That means that during the parent’s life, the child can help:

- Make sure the account has enough money on a daily basis to avoid bank fees like overdraft charges;
- Identify, and prevent against, fraudulent account activity; and, perhaps the most common reason;
- Manage the parent’s money if the parent’s health fails.

Additionally, when the parent dies, the account will not go through the probate process (probate is the Court supervised legal process of validating a Will allowing the transfer of the title to individually owned assets).

All good reasons. So why do so many articles recommend against it (the “cons”)?

- Estate consequences. When the parent dies, in most cases any siblings not named on the account, are not entitled to the account proceeds, which is often not what the parent planned.
- Tax reporting. If the account is large enough, the parent may have to file a gift tax return with the IRS. In very rare instances, gift tax could be owed.

- Government benefit implications. Either co-owner could lose eligibility for some form of government benefit. For instance, if the adult child wants financial aid for his or her college-bound child, the money in the account will be factored into eligibility and also for eligibility for medical assistance for nursing home care.
- Legal judgments or creditors. If the child has creditors, the account can be used to satisfy their debt; and
- Divorce. Similar to the previous bullet, if a child goes through a divorce, the bank account may be listed as an asset for the adult child.

Finally, inheritance tax ramifications. If both parents survive and add a child to their joint account, when the first parent dies, the child will owe inheritance tax as a co-owner of the account.

As a general rule, a MUCH better way for the parent to accomplish the "pros" listed above while avoiding the "cons" is to have a have a properly prepared General Durable Power of Attorney or GDPOA. A GDPOA will maximize all the statutory powers a child will need to assist the parent *without giving the child legal or personal ownership of the account*. The child, acting as the parent's "Agent", will be able to accomplish almost every single "pro" listed, but will avoid every single "con". Additionally, an Agent is a fiduciary, which means that the Agent must act in the parent's best interest and his or her actions can be scrutinized at any time, creating a powerful level of accountability.

The one "pro" not addressed is avoiding probate. If there is not a joint owner, however, probate may still be avoided if the parent makes the account "Payable on Death" (POD) or "Transfer on Death" (TOD). In essence, naming a beneficiary. Because of the beneficiary designation, the account will pass outside the probate process.

Wait, so is the answer really that simple? Well, yes, generally. There are always exceptions to general rules, but those discussions fall outside the scope of this article. Suffice to say that tax avoidance, fee minimization and government benefit planning are all complex topics, let alone when they all intersect. If you have specific questions or scenarios to discuss, please give us a call to schedule a no-obligation consultation. Any of the nine Certified Elder Law Attorneys here at Julian Gray Associates would be happy to help.