

Your Clients and Their Children: The Problems With Joint Bank Accounts

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June 11, 2013

Do you get the recurring question from clients that I do, from time to time, about bank accounts? I'm referring to the issue where an elderly mother or father wants to add their child's name to one or more of their bank accounts. In simple terms, the logic makes sense, as most parents want to assure that their bills, mortgages, insurances or even funerals get paid for should something happen to them. Yet most elderly clients and children don't realize the risk that this small transaction creates. Here are just a few issues they, and you, should consider:

Issue No. 1: Full Withdrawal Rights

Each person on a joint bank account is legally considered a full owner when it comes to withdrawing money from the account. Therefore, the risk of a child withdrawing money, borrowing money or accidentally losing the checkbook/debit card for their parent's bank account opens the door to the possibility of losing the elderly parent's savings through theft, stolen identity or bank account access.

Issue No. 2: Creditor Issues

Once a child is added on a joint bank account, it becomes an asset for both parties. So if a situation arises where the child has a creditor win a judgment against him or her, that creditor could garnish the entire bank account, regardless of the parent's involvement in the creditor claim, possibly resulting in the loss of the account funds.

Issue No. 3: Divorce or Legal Issues

As noted above, any assets in this assumed bank account are deemed as owned property by the parent and the child. What if the child's spouse files for divorce? That divorcing spouse could be entitled to a portion of the joint bank account funds. Or what if that child runs a stop sign and hits another car or person or damages someone's property? Any lawsuit claim/judgment settlement for money will include this account as part of the child's assets.

Issue No. 4: Bypassing the Will

As you probably know, joint accounts or any asset registered jointly with rights of survivorship bypass the will of a deceased person. So in this case, the will does not impact the money in joint bank accounts. This might not be an issue if the child is the only beneficiary of the parent's estate. If not, it can create a major feud among other beneficiaries, as the dividing process is not that easy after the fact. Furthermore, should the parent's will include specific trust provisions related to their estate planning goals, this change in ownership of the bank account could have drastic and irreversible effects on everything from inheritances, taxes or other estate expenses, since this account would bypass the will's provisions.

Issue No. 5: Gift Taxes

Most clients are not aware of the gift tax issue, as the laws are pretty infringing and complex, tying back into each person's inheritance tax exemptions, etc. Adding a child to a parent's bank account is indirectly making a gift, which may or may not be subject to gift tax for the parents. Furthermore, depending on the amount of money in the account and how many children are added as owners, all plays into the gift tax issue. While specific details are beyond the scope of this article, they are accessible at the [IRS](#) website. Nevertheless, it is still important to note that a possible gift tax issue could be a problem for some parents.

There are many more issues of concern in this area, such as their effect on long-term care or Medicaid-related issues, but I believe most advisors will agree that putting a child's name on a bank account or any asset, for that matter, is probably not a good idea.



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