

Trump Accounts

Quick-Take: Both versions of the House and Senate budget reconciliation bills include the new savings vehicles for minors, the Trump Account.

Background: The ***One Big Beautiful Bill*** includes a new savings feature for minors, called the Trump Account, lest we ever forget he was our President. Key features of this new proposal follow.

Eligibility: The account can be opened for all children who are under the **age of 8 who are U.S. citizens.**

Qualified Purposes: A distribution from the account for a ***qualified purpose*** includes: (i) education expenses or credentials; (ii) the down payment on a first home; or (iii) capital that is used to start a business.

Contributions: Individuals and taxable entities can contribute up to **\$5,000** annually to the account (that is the maximum from all sources), using **after-tax dollars**. These funds must be invested in a diversified fund that tracks an established index of U.S. entities. However, any contribution provided to the account by a tax-exempt entity, e.g., a private foundation, are not subject to the \$5,000 limit. Contributions can also be made by unrelated parties so long as it is provided to all children within a qualified group. Contributions **cannot** be made to the account after the child attains age 18. These contributions would not be deductible by the donor

Bonus Contribution: For a U.S. citizen born between January 1, 2024, and December 31, 2028 (no immigrants!) the federal government will contribute \$1,000 per child to the eligible account. For newborns, the account may be opened by a parent or a guardian. To be eligible to open the account and to receive this bonus contribution of \$1,000, the child-beneficiary must be a U.S. citizen at birth and both parents must provide their Social Security number, and those numbers must be considered work-eligible to claim the 'credit.'

Distributions: Distributions may **not** be made from the account until the child-beneficiary attains the age **18 years**. Even then, access to the account is limited between the ages of **18 through 25, restricted to 50%** for qualified purposes of higher education, training programs, small business loans, or first-time home purchases. At age **25**, the child-beneficiary can withdraw any amount up to the full balance of the account for a qualified purpose. The child-beneficiary has full access to the account balance when he/she attains the age **30 years**, and the funds can then be used for any purpose.

Taxation: Distributions more than basis, i.e., contributions, taken for qualified purposes will be taxed as long-term capital gains, which distributions taken for any other purposes will be taxed as ordinary income. Thus, while much like a 529 account where earnings are deferred under the account, earnings are not like the 529 account since the account's earnings, if used for a qualified purpose will still be taxed, albeit at long-term capital gains rates, while the earnings of a 529 account are never taxed if used for education (broadly defined) purposes.

Example: If a child-beneficiary only received the government's bonus contribution of \$1,000 with no further contributions to the account, that amount will grow to about \$3,500 after 18 years if the average market growth rate is 7% a year. If the parents contributed the maximum of \$5,000 every year for all 18 years, using the same growth rate, the account balance when the child reached age 18 would be more than \$170,000.

Conclusion: Apparently Trump accounts are intended to introduce more Americans to wealth-building opportunities. But the Tax Code already has about 10 savings inducement provisions and adding yet another just is another layer of complexity. While that may be so, these accounts seem to be very complicated, and highly unlikely to be used by lower-income families. Perhaps it would have been easier to expand the scope of permissible tax-free distributions using a 529 account that many are familiar with than create yet another set of rules and restrictions. Better yet, Congress should explore creating a Universal Savings Account for all Americans, without so many conditions.

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