

Trump Account or 529?

Take-Away: It is unlikely that employers will contribute to Trump Accounts for some of their employees.

Background: A recent missive summarized Trump Accounts created under the One Big Beautiful Bill Act, or OBBBA. As a quick refresher, a Trump Account can be created for a child who is born between 2025 and 2028. Up to \$5,000 can be contributed to the Trump Account each year. If such an account is opened, the U.S. government will contribute \$1,000 to it. In addition, employers can also contribute to that account, up to \$2,500 annually, and that contribution will not be treated as taxable income to the employee.

Eligibility: To become eligible for the government's \$1,000 contribution to a Trump Account, some conditions must be met, including: (i) the child must have a Social Security number; (ii) the child's parents must demonstrate work eligibility; and (iii) the child's parents must have Social Security numbers. However, there are no income limits for contributions to a Trump Account, unlike modified adjusted gross income (MAGI) limitations for many of the other OBBBA new income deductions.

Trump Account Limitations: The limitations associated with a Trump Account are that: (i) the funds must be invested in low-cost mutual funds that track the S&P 500; (ii) there can be no withdrawals from the Trump Account until the child attains the age 18; (iii) total access to the Trump Account for any expenditure is delayed until the child attains the age 25; (iv) distributions from the Trump Account will be taxed as capital gains; (v) there is the annual limit on contributions of \$5,000 to the Trump Account (in contrast to 529 accounts where many states have annual caps on contributions in the hundreds of thousands of dollars, and (vi) any employer contribution to the Trump Account will count towards the annual limitation on contributions of \$5,000.

Employer Contributions: As noted, an employer can contribute up to \$2,500 annually to a Trump Account for a child born between 2025 and 2028. Approximately 15% of companies with 500 or more employees contribute to voluntary 529 accounts right now, according to the Employee Research Institute. Those contributing employers may be less inclined to contribute to a Trump Account for several reasons.

A 529 account can be actively managed with age-based portfolios. In contrast, a Trump account can only be invested in single US equity index funds.

The comparison between a state-sponsored 529 tuition assistance program and the mandatory tax imposed on Trump Account withdrawals, at capital gain rates, will make the Trump Account option less appealing to employees who want to save for their child, or grandchild's, higher education.

Permitted withdrawals from a Trump Fund after age 18 are limited to education, starting a business, or first-time home purchases.] Withdrawals can be made from a 529 account after age 18 (or any age) for any reason, but if not for education related expenses, the withdrawal of earnings on the 529 account will be taxed as ordinary income along with a 10% penalty.

Contributions to a state-sponsored qualified tuition assistance program like a 529 account lets parents set aside money for their children's college education often without paying any tax on the program's earnings if used for higher education purposes- not so with the Trump Account.

Most states offer an income tax deduction on personal contributions to a 529 account; 8 states now give employers a tax credit on contributions they add to a 529 account according to the College Savings Plans Network. An employer's contribution to a Trump Account will not be counted as income on withdrawals, but there is no federal income tax credit on a Trump Account contribution.

Observations: A couple of thoughts when it comes to contributions to a Trump Account:

Employers Unlikely to Contribute: If an employer had excess cash and it wanted to reward its employees, it is more likely that the employer will directly give the cash to all its employees (not just those who have children born between 2025 and 2028) and/or it will

more likely make a larger contribution to all employees' 401(k) accounts, than contribute up to \$2,500 to each Trump Account.

Trump 'Brand:' One must wonder what the impact of Trump's 'brand' will have on employers that participate as contributors to Trump Accounts. As noted, it would seem that if an employer wanted to financially help its employees, it would be more likely to either directly pay cash bonuses to them (and let them fund their own Trump Accounts using the bonus amount) or enhance a profit sharing contribution to the 401(k) account, as opposed to directly funding the Trump Account for a handful of employees who have newborns.

However, from recent news reports, it is apparent that the Trump Administration is more than willing to reward companies for their public support of him and his administration. Will companies feel extorted to fund Trump Accounts for their employees just to appear friendly to him? [The President does seem to 'keep score' of who his friends are these days.] The MAGA folks (or MAGA business owners) who appear eager to purchase Trump branded merchandise are far more likely to fund Trump Accounts for their employees.

Conclusion: Ignoring the optics of businesses that will want to appear to support President Trump and his administration by financially contributing to Trump Accounts, it seems that using a Trump Account to fund a child's future education will encounter stiff competition with funding a 529 account. Missing the \$1,000 contribution from the government might give pause to some parents who choose to not fund a Trump Account, it is far more likely that an employer will simply bonus any 'excess' cash to the parents, or contributed more to a 401(k) account than reward their handful of employees who have children born between 2025 and 2028 with a \$2,500 contribution to a Trump Account. I suspect few employees will open a Trump Account in anticipation that their employer will voluntarily 'give' their newborn child a \$2,500 gift unless their employer wants to curry favor with the President.

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