More on Trump Accounts

Take-Away: Previous missives have generally summarized the new Trump Accounts created under the One Big Beautiful Bill Act (OBBBA.) This missive digs a bit deeper into this new savings vehicle for youngsters and highlights a few unanswered questions.

Background: There is a lot of discussion in the press about the new Trump Accounts as an alternative to using a 529 account to pay for a child's education. Part of that 'excitement' is the $1,000 'seed' contribution from the federal government made to a Trump Account for any child born between January 1, 2025, and December 31, 2028. A review of some of the other restrictions and limitations of a Trump Account follow.

Trump Accounts: When it comes to the government, the devil is always in the details.

Contributions: Parents or others can contribute to a Trump Account on behalf of a child in any calendar year before the year that child attains the age 18. These contributions can be made on behalf of any child, even if that child did not qualify for the $1,000 federal government 'seed' contribution. Even if the child was born before 2025 or was born after 2028, the Trump Account can be funded on the child's behalf. Contributions to a Trump Account can be made starting on July 4, 2026.

Contributions can also be made to a Trump Account in a calendar year after the year the child attains age 18. However, these contribution must then follow traditional IRA contribution rules. Accordingly, annual contributions to the Trump Account cannot exceed the applicable dollar limit, e.g., $7,000 in 2025, and $8,000 for age 50 or older. In addition, there must be earned compensation at least up to the amount of the Account contribution limit. Roth IRA contributions are *not* permitted. It appears that pre-age-18 contributions, and their earnings, could potentially be converted to a Roth IRA on/after age 18- that is still not clear.

After the child attains age 18, contributions to his/her Trump Account can be deductible if that individual (i) is not an active plan participant in a workplace plan, or (ii) if he/she is an active participant, and (iii) he/she has modified adjusted gross income (MAGI) below the applicable phase-out dollar limit.

There is also the possibility for employer-provided contributions for teenage employees and dependents of employees. The total contribution from this source is limited to $2,500, indexed for inflation starting in 2028. Unclear is if this source of contribution is applied towards the annual $5,000 limitation on contributions to a Trump Account.

After-Tax Contributions: All contributions to a Trump Account must be made with after-tax contributions, much like a Roth IRA. No tax deduction is available for the contribution made to a Trump Account. Contributions to a Trump Account will not 'count' towards a contributor's IRA or qualified plan contribution limit.

Investments: Prior to the first day of the calendar year in which the child attains the age of 18, contributions to a Trump Account must be invested in a low-cost mutual fund or an exchange-traded fund that tracks the S&P 500 stock index comprised primarily of U.S. companies. Contributions *after* the child attains age 18 can be invested in any type of investment (other than collectibles, life insurance, and S-corporation stock, just like IRAs are prohibited from these investments.)

No Earned Compensation Requirement: There is no requirement that the child has any compensation in order to be eligible to have a contribution made on his/her behalf. Consequently, while some commentators have compared the Trump Account to a Roth IRA, there is no need for the child to have earned compensation in order for their Trump Account to be funded.

No Withdrawals Before Age 18: Neither contributions nor earnings can be withdrawn from a Trump Account before the first day of the calendar year in which the child turns age 18. After that age, funds can be withdrawn from the Trump Account for any reason, but with some limits (see below.)

IRA Withdrawal Rules: Once the child attains age 18, the Trump Account withdrawal rules pretty much follow the IRA withdrawal rules. Accordingly, contributions can be withdrawn tax-free. However, earnings are subject to ordinary income tax and the 10% early distribution penalty, unless an exception to that penalty applies. Because of the pro rata rule applies, aka the *cream-in-the-coffee* rule, a portion of each distribution from a Trump Account will usually be taxable, and possibly subject to a penalty.

RBD: Funds can remain in a Trump Account, tax-deferred, until the normal required beginning date (RBD) for required minimum distributions.

Lingering Questions: There are a few questions for which some Proposed IRS Regulations will be required to answer.

1. **Election:** OBBBA requires that an election must be made to receive the federal government's 'seed' $1,000 contribution on behalf of an eligible child. There is no indication when or how that election is made. The contributor's income tax return?

2. **RMD Rules:** Trump Accounts apparently follow normal IRA rules once the child hits age 18. Thus, it seems that a Trump Account will become subject to the required minimum distribution (RMD) rules if the account holder holds the Account balance until late-in-life. That said, it is still unclear if RMD rules will apply at that time.

3. **Employer Contribution Limit:** As noted earlier, OBBBA allows an employer to make an employer-provided contribution to a Trump Account for teenage employees and for dependents of employees before they attain age 18, subject to the $2,500 limit on contributions. Yet it is unclear whether this employer contribution opportunity is a lifetime limit per employee, or an annual limit, like the $5,000 limit on Trump Account contributions made by parents, grandparents, or other individuals.

4. **Government 'Seed' Contribution:** OBBBA provides that the $1,000 'seed' contribution does not count towards the $5,000 annual maximum contribution to a Trump Account. That is also the same if a tax-exempt organization contributes to a

Trump Account. However, the Act does not expressly say whether employer contributions to a Trump Account do not count towards the $5,000 annual contribution limit, or they are in addition to that $5,000 limit. It would be a challenge for an employer to coordinate contributions with 'outside' contributions to a Trump Account when complying with the $5,000 annual contribution limit.

5. **Roth Conversions:** When a child attains age 18 the Trump Account contributions made before age 18 (and their earnings) automatically fall under the normal, traditional, IRA rules. As noted, those rules also apply to any contributions made to the Trump Account in a calendar year the child turns age 18 or in later years. Does this mean, then, that the Trump Account funds can be converted to a Roth IRA starting at age 18? Such a conversion would be very beneficial since it would allow decades of tax-free growth on the Trump Account funds.

Conclusion: We are only just learning the pros and cons of a Trump Account, compared to a 529 account or some of the other tax-deferred savings rules in the Tax Code. Fortunately, the IRS has the better part of a year to come up with Proposed Regulations that will provide examples and also answer some of the lingering questions.

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