

## Trump Accounts Subject to "Some" IRA Rules

**Take-Away:** Trump Accounts are treated (sort of) as traditional IRAs, but with their own special rules. Accordingly, applying conventional IRA contribution and distribution rules to a Trump Account might lead to mistaken assumptions.

**Background:** The OBBBA created a new savings device, the Trump Account. [IRC 530A.] Trump Accounts are considered traditional IRAs (non-Roth IRAs) until the child for whom the Trump Account is opened attains the age 18. Until then, the Trump Account is subject to several special rules that do not apply to traditional IRAs. Once the child attains the age 18, then the normal IRA contribution and distribution rules apply to the Trump Account. Accordingly, there could be a lot of confusion regarding Trump Accounts identifying when some IRA rules apply and when IRA rules do not. A 'deeper dive' into Trump Accounts follows.

**Contributions to Trump Accounts:** Several types of contributions may be made to a Trump Account:

**Federal Government:** For babies born between January 1, 2025, and December 31, 2028, a one-time contribution of \$1,000 will be made by the government to a Trump Account if the child is a U.S. citizen who has a Social Security number. No contribution will be made by the government until July 4, 2026 (presumably to give Treasury time to come up with the rules.) The OBBBA refers to this as a 'pilot program' which means that it *might* be extended beyond 2028. The government's 'seed' contribution does *not* count towards the private contribution limit of \$5,000 (see Example described below.)

**'Private' Contributions:** Parents or other individuals can contribute to a Trump Account on behalf of any child before that child attains age 18 years. These contributions can be made even for a child who does not qualify for the federal government's \$1,000 'seed' contribution. Contributions can also be made even if the child was born before 2025. Total private contributions to a Trump Account from *all* individuals cannot, however, exceed \$5,000 (indexed for inflation starting in 2028) in a year. While a Trump Account is supposed to be treated as a traditional IRA, its annual contribution limit is lower than the regular contribution limit to a traditional IRA (e.g., \$7,000 in 2025.) Contributions must be made to

the Trump Account by December 31 of that calendar year; prior year contributions are not allowed to the Account. No contribution is permitted to the Trump Account before July 4, 2026. It is unclear whether the \$5,000 annual contribution limitation will be pro-rated in 2026, given its mid-year contribution 'start' date. Unlike the normal IRA rules, there is no requirement that the child earn any compensation in order to have a contribution made to his/her Trump Account. Similarly, while there is an income limit associated with a contribution to a traditional IRA, there are no income limits imposed for those who contribute to a Trump Account. No income tax contribution deduction can be taken for a contributions to a Trump Account.

**Example:** In 2027, each of Karl's parents, who is age 7, makes a \$2,000 contribution to Karl's Trump Account. Karl's grandfather also wants to contribute to Karl's Trump Account in 2027. Karl's grandfather can only contribute \$1,000 to Karl's Trump Account.

**Example:** Elizabeth was born on January 15, 2027. The federal government made a \$1,000 'seed' contribution to Elizabeth's Trump Account on January 1, 2027. Elizabeth's parents can still make a \$5,000 contribution to Elizabeth's Trump Account in 2027.

**Employer Contributions:** Employers are allowed to contribute to a Trump Account for teenage employees and dependents of employees before the year the child attains the age 18. However, an employer's contribution to a Trump Account is limited to \$2,500 a year (indexed for inflation, starting in 2028.) This employer contribution counts towards the annual \$5,000 contribution private contribution limit. It is not clear from the law as it is written if this is an annual limitation or it is a lifetime employer contribution limit. Also unclear is if an employee has more than one child: is this employer contribution limit of \$2,500 limited applicable to all of the employee's children, or does the \$2,500 contribution limit apply on a per child basis?

**Tax-Exempt Contributions:** A tax-exempt organization may also contribute to a Trump Account. It is limited to a targeted group of children who have not reached the age 18 by the end of the calendar year in which the contribution is made. There is *no* maximum amount for these contributions, nor do they 'count' towards the \$5,000 individual contribution annual limit to the Trump Account.

**Prior to Child Attaining Age 18:** While a Trump Account is supposed to be treated as a traditional IRA, there are several special rules that apply while the child is under age 18. The contributions and earnings on those contributions are subject to different rules than a traditional IRA.

First, withdrawals are not allowed from a Trump Account until the child attains the age 18 years.

Second, before the year in which the child turns age 18, investments in a Trump Account are restricted to low-cost mutual funds that track the S&P 500 index or any other index that is comprised of stocks primarily in U.S. companies.

Third, contributions made to the Trump Account before the child turns age 18 years do *not* count towards the contribution limits from other sources of contributions to the Trump Account.

**Example:** Issac, age 17, worked all summer at a full-time job in 2028. Issac received W-2 income of \$7,000 for his efforts. Issac's father can make a \$7,000 contribution to a Roth IRA established for his son, and he can also make a \$5,000 contribution to Issac's Trump Account. In effect, the OBBBA allows for 'doubling' IRA contributions for Issac so long as he has legitimate taxable compensation.

**After the Child Attains Age 18:** Once the child attains the age 18 years, Trump Account contributions made before that age, in addition to earnings from those contributions, automatically become subject to traditional IRA rules. Contributions made to a Trump Account in a calendar year on or after the year the child turns age 18 must follow those rules. Consequently, effective on January 1 in the year the child turns age 18, *all* funds in his/her Trump Account can be withdrawn for any reason. However, if the funds are withdrawn from the Trump Account, they are treated as a withdrawal prior to age 59 ½, which means the contributions will be both taxable and subject to the 'early distribution' 10% excise tax. Since this post-age-18 Trump Account is treated as a traditional IRA, the child can convert his/her Trump Account to a Roth IRA and then start the 5-year 'clock' running before distributions taken from their Roth IRA will be tax-free. Presumably since the

Trump Account is treated as a traditional IRA, it can be held until the child attains his required beginning date (RBD) at which point required minimum distributions (RMDs) will start. After the child attains age 18 years the Trump Account can be invested in any investment that is normally available to a traditional IRA (but no collectibles, life insurance, or S-corporation stock.) Also, when the child attains the age 18 years his/her Trump Account's contributions will be aggregated with other IRAs for purposes of complying with the annual traditional IRA contribution limit.

**Trump Account Distribution Rules:** There are different tax distribution rules for a Trump Account. The federal government's 'seed' contribution and 'other' contributions (employer and non-profit) are *not* considered basis. Consequently, those government and 'other' contributions and the earnings on them are fully taxable in the year in which they are withdrawn. In contrast, 'private' contributions made by parents and other individuals, e.g., grandparents, are considered basis for tax reporting purposes. Therefore, distribution of these 'private' contributions themselves, such as the \$5,000 annual contribution from a parent, will be tax-free, but the earnings on those 'private' contributions will be taxable, and thus also subject to the 10% early distribution excise tax (unless a statutory exception like disability or first-home-buyer distributions applies.)

In addition, the *pro rata* rule, (aka the *cream in the coffee rule*) will apply when there are both pre-tax and after-tax contributions to the Trump Account and distributions are taken from that Account. However, when applying the *pro rata rule* to Trump Account distributions, non-Trump Account IRA balances will be ignored.

**Example:** Angie was born in 2026. Twenty years later Angie is age 20. After Angie was born, the government made a \$1,000 'seed' contribution to her Trump Account. Angie's parents also make contributions to her Trump Account over the years of \$20,000. Angie's father's employer also made a one-time contribution to her Trump Account of \$2,000. Each of those contributions over the years generated earnings. Angie's Trump Account now has a balance of \$50,000 of which \$20,000 is treated as basis. The result is that 40% of every Trump Account distribution taken by Angie will be tax-free, and the remainder of the distribution will be taxable. If Angie takes a \$10,000 distribution from her Trump Account, \$4,000 will be tax-free and the remaining \$6,000 will be taxable, including a 10% excise tax of \$600 since it is an early distribution from a traditional-like IRA, unless there is an IRA distribution exception available, such as Angie using the funds as a first home-buyer using

that \$10,000 to purchase a home. A summary of those contributions in this example, their earnings, and the 'basis' of Angie's Trump Account contributions follows:

Government: Contribution- \$1,000 Earnings- \$7,000 Total- \$8,000 Basis- \$0.00

Parents: Contribution- \$20,000 Earnings- \$18,000 Total- \$38,000 Basis- \$20,000

Employer: Contribution- \$2,000 Earnings- \$2,000 Total- \$4,000 Basis- \$0.00

Totals: Contribution- \$23,000 Earnings- \$27,000 Total- \$50,000 Basis- \$20,000

**Planning With Trump Accounts:** If the federal government is willing to make a free 'seed' contribution of \$1,000 it makes sense to obtain a Social Security number for a newborn so the contribution can be made to the newborn's Trump Account. Less clear is whether parents or grandparents should make contributions to a Trump Account depending on the intended ultimate purpose of the contribution.

**Wealthy:** If there is plenty of wealth in the family, and thus the likelihood is that the child will maintain his/her Trump account for their own retirement far into the future, or better yet, convert their Trump Account to a Roth IRA at age 18, then contributing to a Trump Account now makes sense.

**Moderately Wealthy:** If, however, the family is moderately wealthy, so saving for a retirement 7 decades from now does not make much sense, then contributing to a 529 account may make more sense rather than a Trump Account, inasmuch as distributions from the 529 account for education are completely tax-free, and there are fewer limitations or reporting to contend with.

**Modest Means:** Certainly, apply for a Social Security number for a newborn, since the \$1,000 government contribution is 'free money.' If planning for future education expenses is

not a principal purpose using limited available savings at this time, perhaps a contribution to a Uniform Transfer to Minor's Account (UTMA) might be a much simpler planning objective for families of limited means.

What is important to keep in mind is that complex reporting and income inclusion rules, along with early distribution penalties, will have to be factored into any decision to fund a Trump Account.

**Conclusion:** Trump Accounts are a new opportunity to save for children. Making a Trump Account a 'sort of' traditional IRA, with some (but not all) IRA rules applicable will probably cause a lot of confusion when it comes to the tax consequences of contributing to a Trump Account and taking distributions from a Trump Account. The rhetorical question always will linger- is the hassle worth it? All I know is that I have typed the word *Trump* at least 60 times in this missive, so at least I've made at least one person we know very happy.

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