Trump Accounts- Update and Unanswered Question

Quick-Take: We are slowly getting more information on how Trump Accounts will function starting next year. A fairly large question regarding the funding of Trump Accounts remains unanswered.

Background: If you have clients who have asked questions about opening and funding a Trump Account, some tentative answers can be found in the IRS **Notice 2025-68** which was released on December 2, 2025. A Trump Account cannot be funded until July 4, 2026, so we can expect Regulations to be forthcoming in the next couple of months. In addition, the IRS is currently finalizing Form 4547 on which an election must be made to fund the Trump Account. Some Trump Account basics follow.

Form Whom: A Trump Account is for a child who has not turned 18 before the end of the calendar year in which an election is made.

Contributions: Contributions to a Trump Account are not deductible. The maximum amount that can be transferred to a Trump Account is $5,000 in a year. Certain governmental entities and charities can also make qualified general contributions to a Trump Account if given to/for a qualified class of account beneficiaries. Even employers can contribute to a Trump Account of the employee or the employee's dependent, but that contribution is limited to $2,500 a year, which also counts against the maximum $5,000 per year contribution limit. The $5,000 annual limit for contributions will be indexed to inflation.

Earnings: Earnings on a Trump Account are deferred until distributions.

'Seed Contribution:' The U.S. government is going to make a one-time 'seed' contribution to new Trump Accounts for any child who is born between January 1, 2025, through December 31, 2028.

The Dell Contribution: In the headlines this week Michael Dell announced that he and his wife will be making an additional 'seed' contribution to a Trump Account for children who were born prior to January 1, 2025 (but is there a cut-off date?). The Dells have said that their gift to the U.S. government will be $6.25 billion to pay for this ‘enhancement.’ How this additional influx of Dell funds will be allocated among other children for whom Trump Accounts will be opened has yet to be announced.

Use of Funds: Access to the funds held in a Trump Account is pretty much prohibited until the year in which the child-beneficiary attains the age 18. This is in contrast to a funded 529 account where funds can be accessed before that event for a variety of purposes before that age, e.g., up to $20,000 can be taken from a 529 account to pay for K-12 education expenses.

Investments: Funds held in the Trump Account must be invested in certain mutual funds or exchange-traded funds that track the S&P 500 or another index of primarily U.S. equities.

Taxation: As noted, earnings on the funds held in a Trump Account are tax deferred. A Trump Account will, in general, be taxed like a traditional IRA, including imposition of the early distribution 10% excise tax. Accordingly, after the child attains age 18, he/she is pretty much treated as owing a traditional IRA, and if they take funds from their Trump Account, the distribution will be taxable as ordinary income, along with a 10% excise tax (unless one of the IRA exceptions to the penalty apply.) Unknown is whether the child, after age 18, can convert the balance of his/her Trump Account directly to a Roth IRA.

Unanswered Question: The gift tax annual exclusion is currently $19,000 per donee. To qualify for this annual exclusion, the gift must be of a present interest, i.e., a gift that the recipient can presently use or benefit from. A transfer to a 529 account is an exception to the present interest requirement. The Tax Code specifically states that contributions to a 529 account have no such present interest requirement, hence a donor’s transfer to a 529 account qualifies for the gift tax annual exclusion.

In its haste to adopt the Trump Account opportunity this past summer, Congress did not add a rule, consistent with the 529 contribution rule, that treats contributions to a Trump Account as satisfying the present interest requirement. Accordingly, a contribution to a Trump Account might not be viewed as having satisfied the Tax Code’s present interest requirement, which means that a donor’s contribution to a Trump Account will be viewed as a future interest and that contribution will use some of the donor's lifetime gift tax exemption (or worse, cause a federal gift tax to be paid.) If that is the case, the prospective donor to a Trump Account will need to consider the costs of preparing a gift tax return, which might outweigh the benefit of any contribution to the Trump Account. There are also generation skipping transfer tax consequences as well if a grandparent funds a Trump Account for the benefit of his/her grandchild.

Conclusion: Hopefully, this unanswered question will be resolved by the Regulations, or a Congressional amendment, prior to the effective date for Trump Accounts on July 4, 2026.

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