## Trump Accounts Have Arrived

**Quick-Take:** There are some last-minute rules to keep in mind as we actually enter the era of Trump Accounts (TA's.) I wish I could say that this is the 'final word' on TAs, but we all know that is not going to be the case.

**Backgrounds:** Starting July 4, 2026, Trump Accounts (TA's) 'go live.' There are plenty of rules to become familiar with if a TA is to be opened and funded this year. The government reports that as of the end of May 2026 over six million Trump Accounts had been opened. What follows is a brief review of some of the TA rules that have triggered some confusion or lingering questions among parents and grandparents, resulting from the frequent comparison in the news of a TA to a traditional IRA.

**Two Elections Required:** The rules to open a TA require two separate elections to be made. One election is just to open the TA; not just anyone can open a TA. The second election is required is to obtain the 'seed' contribution of $1,000 to the TA from the federal government. As was previously reported, to open a TA the individual authorized to open the TA must be, in order of priority: (i) the child's guardian; (ii) the child's parent; (iii) an adult sibling of the child; and (iv) the child's grandparent. This statutory order of priority means that a grandparent (who may have more discretionary wealth than the parent who is raising the child) can open a TA for their grandchild *only if* there is no legal guardian or parent available to open the TA. The first election is made on Form 4547 which can either be submitted by hard copy or electronically filed through trumpacccounts.gov. The second election is also made on Form 4547. Once the TA has been activated, and contributions can be made to it (after July 4, 2026) the TA can then be moved (rolled over) to another approved TA custodian, like Greenleaf.

**Gift Tax:** The IRS has yet to resolve the question if a contribution to a TA qualifies for the federal gift tax annual exclusion. Since the contributions to the TA cannot be withdrawn by the child, the contribution would not satisfy the *present interest* requirement of the Tax Code. [IRC 2503.] Thus, if a contribution is to be made to a TA, the donor will have to file a Form 709 and report the taxable gift. Presumably, Congress will 'wake up' and amend IRC 530A to treat all contributions to a TA like those made to a 529 account as qualifying for the gift tax annual exclusion but until that wake-up call, plan on reporting TA contributions as taxable gifts.

**No Withdrawals:** Unlike a traditional IRA, no funds can be withdrawn from a TA until the child-beneficiary attains the age 18. Investments are also restricted to U.S. index mutual funds. There are only a couple of exceptions to this restrictions on distributions from a TA: (i) excess contributions to a TA must be immediately withdrawn (i.e., no carry-overs to the next year); (ii) the TA balance can be rolled over to another TA-but recall that there can only be one TA opened for the child at any point in time; (iii) a TA can be rolled over to an ABLE account opened for the child-beneficiary; and (iv) the child's death. In short, the funds are locked-in to the TA until the child attains age 18.

**Federal Taxation:** The basis in a TA can turn on the source of contributions to it. For example, the federal 'seed' contribution, employer contributions, and tax-exempt organization contributions are fully taxable in the year in which they are withdrawn. In contrast, contributions made by parents and grandparents to the TA are treated as being after-tax, i.e., basis and thus they are not taxable when withdrawn from the TA, though the earnings on those contributions will be fully taxable and subject to the 10% early distribution excise tax (meaning the distribution will be taxed like a traditional IRA.) Since there will be *basis* in most TA's, this will place an administrative burden on the TA custodian to keep track of contributions and their earnings, which will follow over when the child turns age 18 and begins to view the TA more like a traditional IRA.

**Cream-in-the-Coffee Rule:** Remember this rule when contemplating a 'back-door' Roth conversion when a traditional IRA holds both pre-tax and after-tax contributions? Well, its alive and well when it comes to taxable distributions from a TA. More technically called the *pro rata* rule, it means that if distributions are taken from a TA after the child attains age 18, some of the distribution will be taxable while part of the distribution will not be taxable as *basis*. However, one big difference between a distribution from the TA and a distribution from a traditional IRA is that if the child owns a traditional IRA in addition to their TA, the balance of the traditional IRA is not considered in determining the taxable portion of the distribution taken from the TA.

**Roth Conversion:** While there were initial questions when the OB3 created TA's the IRS resolved any confusion by declaring that the balance of a TA can be rolled over or converted to a Roth IRA after the child attains the age of 18. That conversion would be taxable to the child, and it could also expose those rolled over funds to the Kiddie Tax, i.e., taxed at the parents' marginal income tax bracket if the child is under the age of 23.

**Planning Observation:** If a child is age 16, for example, it might be wise to fully fund a TA for that child for three years, e.g., $5,000 a year for three years, or $15,000 of contributions (*basis*.)  Assume the TA earns $500 a year. When the child attains age 18 there will be $15,000 of after-tax (*basis*) assets held in the TA and a modest amount of earnings ($1,500) on those three years of contributions. The 'lion's-share' of the TA balance will be *basis.* If at age 18 that TA is rolled over to a Roth IRA, the tax-cost of the rollover will be minimal, i.e., the income tax will be only on $1,500 earnings; the income taxes will be solely on the TA earnings for three years. If the Roth conversion takes place at age 18, the fair assumption is that the child will be in low income tax bracket (but perhaps subject to the Kiddie Tax.) Thus,  at age 18, the child might own a $16,500 Roth that can grow tax-free for the next 50 years, available to fund his/her retirement.

**Child's Earnings:** There are special rules if the child has a TA and also has earnings that could be contributed to an IRA. First, and foremost, is that a child does not have to have any earnings in order for a contribution to be made to their TA. Contributions to a TA before the child is age 18 do not court towards the usual annual IRA contribution limit, i.e., $7,500 in 2026. Thus, parents or grandparents can make an annual TA contribution each year, they can also start making traditional or Roth IRA contributions in the same year that the child has taxable earnings.

**Example:** In 2028 Charlie turns age 17. Charlie has a good summer job, and he works part-time during the school year, during which he earns $7,000. Charlie's father, a successful dentist, can make a $5,000 contribution to Charlie's TA for 2028. Charlie's father can also make a $7,000 contribution to Charlie's Roth IRA. If Charlie had instead earned $2,000 of wages in 2028, his father could still make the $5,000 TA contribution and a $2,000 Roth IRA contribution for Charlie in 2029 (when Charlie turns age 18.)

**Watch Out for State Law:** Seven states (California, Hawaii, Kentucky, Massachusetts, Pennsylvania, South Carolina, and Wisconsin, have announced that they will not recognized TAs as IRAs. Accordingly, they plan to tax the TA earnings annually. Other states may follow.

**Conclusion:** Trump Accounts are new, and apparently, they are attracting a lot of interest in light of the federal $1,000 'seed' contribution to TA's established for children born between 2025 and 2028. Yet they are different than a traditional IRA, at least until the child attains the age 18. In my view (for what it is worth) a contribution to either a 529 account, or a Uniform Transfers to Minor Account, will be more flexible and tax-efficient (at least with the 529 account) than will a TA contribution. Maybe open a TA to become eligible for the $1,000 'seed' contribution, but if annual contributions of $5,000 are planned, use a 529 account for those annual contributions.

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