Trump Accounts:
A New Savings Option for Children

PALLAS CAPITAL ADVISORS

Recent legislation created a new type of savings account for children commonly referred to as "Trump Accounts." While these accounts offer a unique government-funded head start, they also come with rules and tradeoffs that families should understand before contributing additional money.

What Is a Trump Account?

Trump Accounts were created under the *One Big Beautiful Bill Act* and any child with a Social Security number who is under age 18 in the year the account is established can have one.

Under a pilot program, the Treasury Department plans to seed the accounts with $1,000 for children born between Jan. 1, 2025, and Dec. 31, 2028, who have a Social Security number and are U.S. citizens.

Parents and others will be able to start contributing in July of 2026. The Treasury Department will oversee the program, and banks or other financial institutions will administer the accounts.

Who can Contribute?

Once established, parents, relatives, or others may contribute up to $5,000 per year until the year before the child turns 18. Employers may also contribute up to $2,500 (indexed for inflation starting in 2028).

Charities could also contribute to these accounts if the contributions are made on an equal basis to all the children in a certain geographic area or birth year, for example. How this particular aspect will be administered remains to be seen, however.

How Are the Funds Invested?

Account assets must be invested in low-cost mutual funds or ETFs focused primarily on U.S. stocks. Earnings grow tax-deferred, meaning taxes are not owed while money remains in the account.

When Can the Money Be Used?

Starting January 1 of the year the child turns 18, the beneficiary can access the entire account for any purpose. Withdrawals for qualified purposes such as higher education or a first-time home purchase may avoid early withdrawal penalties, but taxes may still apply.

How Are Withdrawals Taxed?

Withdrawals are taxed proportionally. After-tax contributions are not taxed again, but the federal seed money, employer and charitable contributions, and investment earnings are taxed as ordinary income when withdrawn.

> **Example:** Parents contributed $10,000 of after-tax money to the account on top of the $1,000 seed money, and there is $4,000 of investment earnings. Total balance of the account by the time of the child is age 18 is $15,000. Any distribution the child takes will be one-third taxable because the $1,000 seed money counts as earnings. If the beneficiary takes out $6,000 in this case, $2,000 would be taxed, no matter what the funds are used for, after reaching age 18.

How Do Trump Accounts Compare with Other Strategies?

Unlike Roth IRAs or 529 plans, Trump Accounts do not offer tax-free withdrawals or upfront deductions. They may be best viewed as a supplemental option rather than a primary savings vehicle.

Feature	TRUMP Accounts	529 Plans	Roth IRA	Traditional IRA
Contribution Limit – 2026	$5,000 per child per year (indexed starting later years)	No federal annual limit: state lifetime limits apply	$7,500 ($8,600 age 50+)	$7,500 ($8,600 age 50+)
Tax Benefit at Contribution	No federal deduction	No federal deduction; possible state tax deduction or credit	No deduction	Deductible if income and plan participation rules are met
Tax Treatment While Invested	Tax-deferred growth	Tax-deferred growth	Tax-free growth	Tax-deferred growth
When can withdrawal be made?	No sooner than Jan 1 of the year the owner turns age 18	Anytime. Income taxes and penalties may apply	Anytime. Income taxes and penalties may apply. Owner's basis comes out first	Anytime. Income taxes and penalties may apply.
Tax Treatment of Qualified Withdrawals	Taxable as ordinary income (even for education or home purchase)	Federal tax-free if used for qualified education expenses	Tax-free if rules are met	Taxable as ordinary income
Tax Treatment of Non-Qualified Withdrawals	Taxable plus possible penalty if under age 59 ½	Taxable plus penalty on earnings	Taxable plus penalty if underage 59½	Taxable plus penalty if underage 59½
Withdrawals after age 59 ½	May be used for any purpose. Any investment gains taxed as ordinary income	N/A	Tax-free if rules are met	May be used for any purpose. Any investment gains taxed as ordinary income

Bottom Line:

Trump Accounts provide a government-funded head start, but their complexity makes careful planning essential. For many families, accepting the federal contribution and coordinating additional savings through other vehicles may be the most prudent approach. Aside from the "free"* money the government is promising, perhaps the best case for adding family money to the accounts could be for families who have already maxed out 529 savings plans and want to also jump-start their young children's retirement savings.

*In this context, "free" is made possible by the taxpayer!