

What are “Trump Accounts”?



Should You Use Them for Your Kids?

By Michael Vazza, CFA®

A new type of investment account is set to roll out in 2026, and it's already generated a lot of attention.

Often referred to as “Trump Accounts,” these are government-seeded investment accounts designed to give children a financial head start. On the surface, they sound simple—a \$1,000 government contribution and a long-term investment account—but the real value depends on how they're used.

Here's what you need to know:

A Head Start from Day One

One of the most talked-about features is the **\$1,000 initial contribution** from the federal government. While parents or guardians can set-up a Trump Account for any U.S. Citizen under 18, this \$1,000 seeded contribution applies to children born between 2025 and 2028 and is automatically invested once the account is opened. The purpose is straightforward: get money invested early so that it has decades to grow. If left untouched and invested properly, even that initial \$1,000 could compound meaningfully over time.

How the Accounts Work

- Trump Accounts function similarly to a traditional retirement account, but they're designed specifically for minors:
- A parent or guardian opens and manages the account by submitting IRS Form 4547 or by using the online portal: <https://form.trumpaccounts.gov/>
- Contributions can be made by family members (and even employers) up to a \$5,000 limit per year. Additional contributions may be available from other government entities and charitable organizations, which do not count towards the \$5,000 contribution limit.
- The contributions are invested in low-cost stock index funds or ETFs of predominantly U.S.-based corporations
- The child gains control of the account the year they turn 18

Tax Treatment: The Key Trade-Off

From a tax perspective, these accounts fall somewhere in the middle compared to other accounts:

- Contributions are not tax-deductible
- Investments grow tax-deferred

- Later on, withdrawals are taxed as ordinary income

This is an important distinction. Unlike a Roth account, where growth can be tax-free, Trump Accounts defer taxes until withdrawal—meaning future tax rates will play a role in their effectiveness.

When Can the Money Be Used?

Generally, no withdrawals are allowed from these accounts during the “growth period” – basically, until the year the child turns 18. At age 18, the child gains control of the account and can begin using the funds.

The money can be used for:

- Education expenses
- A first home purchase
- Starting a business
- Or other financial needs

However, similar to retirement accounts, early withdrawals before 59.5 years of age may trigger income taxes and an early withdrawal penalty if not used for the purposes above.

This creates an interesting dynamic: while the account may be accessible earlier than a retirement account, it's still best suited for long-term growth.

How Do Trump Accounts Compare to Other Options?

For many families, the key question is how Trump Accounts stack up against existing tools:

529 Plans:

- Better for education-specific goals
- Offer tax-free growth when used for qualified education expenses
- Less flexible than Trump Accounts

Roth IRAs (for kids with earned income):

- Offer tax-free growth and withdrawals
- Typically, more tax-efficient long-term
- Require earned income to contribute

Custodial (UTMA/UGMA) Accounts:

- Highly flexible
- No tax deferral advantages
- Can impact financial aid eligibility

As mentioned, Trump Accounts sit somewhere in between these existing options—more flexible than a 529, but less tax-efficient than a Roth IRA.

Account Comparison	Trump Accounts	529 Plans	Roth IRA for Minors	UGMA/UTMA Custodial Accounts
Contribution Limit - 2026	\$5,000 per child per year (indexed for future years)	No federal annual limit; state lifetime limits apply	Lesser of \$7,500 or earned income	No maximum contribution amount
Tax Benefit at Contribution	No federal deduction	No federal deduction; possible state tax deduction or credit	None	None
Tax Treatment While Invested	Tax-deferred growth	Tax-deferred growth	Tax-free growth	Taxable annually on dividends and capital gains
When can Withdrawals be Made?	No sooner than January 1st of the year the owner turns age 18	Anytime. Income, taxes, and penalties may apply	Anytime. Owner's basis comes out first. Income, taxes, and penalties may apply on earnings growth	Anytime
Tax Treatment of Qualified Withdrawals	Taxable as ordinary income (even for education or home purchase)	Federal tax-free if used for qualified education expenses	Owner's basis comes out first. Tax-free if rules are met	No penalties, taxes may apply on capital gains
Tax Treatment of Non-Qualified Withdrawals	Taxable plus possible penalty if under age 59.5	Taxable plus penalty on earnings	Owner's basis comes out first. Taxable plus penalty if under age 59.5 on earnings growth	No penalties, taxes may apply on capital gains
Withdrawals after Age 59.5	May be used for any purpose. Any investment gains taxed as ordinary income	N/A	Tax-free if rules are met	No penalties, taxes may apply on capital gains

Where They May Add Value

For families, these accounts may make the most sense when:

- You want to start investing for a child early, even if that child doesn't have earned income
- You value further flexibility beyond education planning
- You're looking to supplement, not replace, other existing strategies

From our perspective, the greatest advantage may be behavioral: these accounts create a structured way for millions of children, who otherwise may not have had the access, to be able to invest from day one and experience the value of long-term capital appreciation first-hand.

Important Planning Considerations

While the concept is simple, the planning opportunities—and risks—are more nuanced:

- The account creates future taxable income, not tax-free wealth
- Long-term growth could lead to significant embedded gains by adulthood

- Coordination with other strategies (529 plans, Roth IRAs, gifting strategies) is key

Once the child turns 18, there is the ability to start converting the funds to a Roth IRA. This may be advantageous for younger earners who are still in relatively lower income tax bracket thresholds. As previously stated, contributions to Trump Accounts are generally made with after-tax/non-deductible contributions, so only the future investment gains would be taxable in the event of a conversion to a Roth IRA account.

The Bottom Line:

For higher-income families especially, how this account fits into a broader financial plan matters more than the account itself.

Trump Accounts are best viewed as a government-seeded, long-term investment account designed to encourage early wealth building. Used thoughtfully, they can be a valuable addition to a broader plan. As with most financial tools, the real benefit comes not from the account itself, but from how it's integrated into your overall strategy.

Pallas Capital Advisors, LLC and its representatives do not provide legal or tax advice. You should consult a legal or tax advisor regarding any legal or tax information as it relates to your personal circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice. The information in these materials may change at any time and without notice. The information contained herein is for informational purposes only, is not personalized investment advice, and should not be construed as a recommendation to purchase or sell any particular security, sector, or strategy to any individual person or entity.

Investment Advice offered through Pallas Capital Advisors, LLC, a registered investment advisor. CRN26_25