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Trump Accounts: A New Way to Invest for the Next Generation

A new type of investment account designed for children, known as a Trump Account, was created under legislation signed in 2025. These accounts are intended to encourage long-term investing early in life by combining tax advantages with an initial government-funded contribution for eligible children.

While the structure is still evolving, Trump Accounts introduce a new planning tool that families may consider as part of a broader strategy for saving and transferring wealth across generations.

What is a Trump Account?

A Trump Account is a new category of tax-advantaged investment account for children, created under the One Big Beautiful Bill Act signed into law in July 2025. The account functions similarly to a custodial-style traditional IRA for a child under age 18, with a parent or legal guardian serving as custodian during the early years.

How the Account Works Over Time

During the initial “growth period,” which lasts through December 31 of the year before the child turns 18, the account operates under a defined set of contribution and investment rules.

After this period, the account transitions to follow traditional IRA rules, including expanded investment options and standard tax treatment on distributions.

Key Features

These features are designed to support early participation and long-term investment growth:

1. The $1,000 federal seed contribution is available only to children born between 2025 and 2028.
2. No income limits for the child or contributing family members.
3. Only one account per child.
4. Annual contributions are capped at $5,000, indexed for inflation. The $1,000 federal seed does not count toward the annual contribution cap.
5. No earned income is required for the child to receive or benefit from contributions.
6. Contributions may begin starting July 4, 2026.

Potential Benefits

- ✓ **Tax-Deferred Growth**
- ✓ **$1,000 Government Seed**
- ✓ **No Income Requirement**
- ✓ **Low-Cost Index Investing**
- ✓ **Roth Conversion Pipeline**
- ✓ **Estate Planning Vehicle**

Contribution Sources

Trump Accounts allow contributions from multiple sources:

- Individuals (parents, grandparents, or others) may contribute a combined $5,000/yr per child.*
- Employers are permitted to contribute up to $2,500/yr, which is deductible to the employer and not taxable to the employee.
- Employee salary reduction contributions may be made on a pre-tax basis and count toward the $5,000 annual limit.
- Eligible children may receive a $1,000 federal seed contribution (for births between 2025 and 2028). This contribution is in addition to other funding and does not count toward the annual limit.
- No contributions may be made after the beneficiary reaches age 18.

Trump Accounts can be established either directly through the Treasury platform or with the guidance of a wealth advisor. The process involves completing the required election and account setup steps, after which contributions and the initial federal seed funding are applied in accordance with the program timeline.

Investment Limitations

During the growth period, investment flexibility is intentionally limited:

- Investments must track a well-established index or diversified portfolio of U.S. equities.
- Use of leverage is not permitted.
- Fees are expected to remain minimal.
- Additional guidelines will be set by the U.S. Treasury.

After age 18, the account transitions to operate under full traditional IRA rules.

* In order to qualify for the $1,000 government contribution, the account opener must be able to claim the beneficiary as a dependent on their federal income tax return.

Benefits and Considerations

Trump Accounts offer a range of potential benefits, but they also come with limitations that should be considered within the context of a broader planning strategy. The structure, tax treatment, and contribution framework may be appealing in certain situations, while other features require thoughtful evaluation.

POTENTIAL BENEFITS

- ✓ Tax-deferred growth on investments
- ✓ $1,000 government seed for eligible children
- ✓ No earned income required to contribute
- ✓ Low-cost, diversified index fund investing
- ✓ Roth conversion pipeline opportunity at age 18+
- ✓ Contributions are completed gifts for estate planning
- ✓ Employer and charity contributions available

POTENTIAL DRAWBACKS

- ✕ Investments restricted to U.S. index funds during growth period
- ✕ No withdrawals before age 18 (except death/disability/ABLE rollover)
- ✕ Pre-tax portions taxable as ordinary income on withdrawal
- ✕ Early withdrawal penalty (10%) before age 59½
- ✕ Kiddie tax may apply to Roth conversions for dependents
- ✕ Implementation guidance still evolving (see Notice 25-68)
- ✕ Additional annual tax filings required

Tax Treatment

The tax treatment of Trump Accounts is similar in structure to traditional IRAs, with several important distinctions.

- The federal government contribution ($1,000 seed) does not establish basis in the account.
- Employer contributions do not establish basis in the account.
- Distributions are generally taxed as ordinary income, reduced by the pro-rata return of basis, using the same calculation applied to non-deductible IRAs.
- Trump accounts are not aggregated with other IRAs for purposes of basis allocation.

As a result, while the account can receive contributions from multiple sources, the tax outcome at distribution is driven primarily by its pre-tax structure.

Distributions

Distribution Rules

No distributions may occur before the account beneficiary reaches age 18, except in limited circumstances such as death or disability (ABLE account rollovers). After that point, distributions are generally taxable as ordinary income, reduced for a pro-rata return of basis, the same calculation as a non-deductible IRA. Distributions may be subject to a 10% early withdrawal penalty prior to age 59 ½ (same rules which apply to IRAs), unless an exception applies.

Exceptions to the 10% Early Distribution Penalty

The following situations allow for distributions without the standard 10% early withdrawal penalty:

Exception	Distribution Allowed
Attaining Age 59½	Any amount
Death	Full distribution required
Disability	Any amount
SEPP (72(t) Plans)	Structured plan
Medical Expenses > 7.5% AGI Floor	Actual expenses
Health Insurance (Unemployed)	Actual expenses
Higher Education Expenses	Actual expenses
First Home Purchase	Up to $10,000
Called to Active Duty	Any amount
Childbirth or Adoption	Up to $5,000 per child
Emergency Personal Expense	Up to $1,000
Domestic Abuse	Up to $10,000
Terminal Illness	Any amount
Disaster Recovery	Up to $22,000
Long-term Care Insurance	Up to $2,500

Comparison to Other Planning Vehicles

Trump Accounts sit alongside other commonly used planning tools, including 529 plans, custodial accounts, and trusts. Each structure serves a different purpose.

Comparison: Trump Account vs. 529 vs. UGMA/UTMA vs. Trust

	TRUMP	529	UGMA/UTMA	TRUST
Maximum Contribution	$5,000 per account beneficiary	Limited to $19,000 from giver to recipient by the gift tax[1]	Limited to $19,000 from giver to recipient by the gift tax[2]	Limited to $19,000 from giver to recipient by the gift tax[2]
Tax Benefit at Contribution	None	State benefit may be available	None	None
Investment Options	Limited to passive US index funds	Limited by state sponsored program offerings	Very broad	No limitations
Taxation During Accumulation	Tax-free compounding	Tax-free compounding	Normal tax rules apply; Kiddie Tax may apply	Compressed trust tax brackets apply
Distribution Options	Limited by 10% penalty IRA rules	10% penalty generally applies to non-education distributions	No limitations	Limited by trust document
Taxation at Distribution	Earnings & non-basis contributions taxed as ordinary income; tax-free return of basis	Tax-free for qualified education expenses; otherwise, earnings taxed as ordinary income	No income tax consequence	May be taxable or tax-free depending on situation
Spendthrift Protections	No distributions permitted until age 18	Account owner controls distributions; bankruptcy & creditor protection may be available	No restrictions upon attaining age of majority (18-25)	Trust may provide limitations and protection

[1] 529 plans allow for front loading 5 years of annual exclusion gifts ($19,000 in 2026).

[2] $19,000 is annual gift limitation amount. Gifts can be made in excess of this amount, but a gift tax return will need to be filed.

IRS Guidance and Resources

Implementation and ongoing updates are provided through IRS and Treasury guidance.

Notice 25-68

- Informs taxpayers that Treasury intends to propose regulations implementing Trump Accounts
- Explains the basic rules for the accounts, including a helpful series of questions and answers

irs.gov/pub/irs-drop/n-25-68.pdf

Form 4547: Trump Account Election(s)

- Used to make the election to establish an initial Trump Account
- Also used to elect the $1,000 contribution from the federal government
- Can be filed electronically with tax return, on paper by mail, or at trumpaccounts.gov

irs.gov/pub/irs-dft/f4547–dft.pdf

Final Considerations

Trump Accounts introduce a new framework for investing on behalf of children, designed to support long-term growth within a defined tax structure.

They may be considered alongside existing tools as part of a broader plan, particularly for families focused on early investing or generational wealth transfer. As with any new program, ongoing guidance and implementation details will continue to develop.

If you are considering a Trump account, a KAR Wealth Advisor can help you assess how it may complement your family's long-term planning objectives.

Rules and guidance are evolving. Please verify details at trumpaccounts.gov and irs.gov.