

Skloff Financial Group

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Question of the Month

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Q: Can you explain what Trump Accounts are and how to get the most out of them?

The Problem — Understanding Trump Accounts

Although Congress does a reasonable job explaining Trump Accounts in CRS Product Number R48910, reasonable is insufficient when it comes to financial planning. Understanding Trump Accounts and how to get the most out of them can be confusing.

The Solution — Understanding Trump Accounts and How to Get the Most Out of Them

Section 530A Accounts, known as Trump Accounts, allow you to start saving and investing for your child's retirement as early as the day they are born. Authorized under Internal Revenue Code (IRC) Section 530A, these tax-advantaged accounts combine government seed funding with private contributions to establish a tax-sheltered investment foundation for children from birth through age 17.

Until age 18, beneficiaries cannot take withdrawals, whether those contributions are made by themselves or by others. Any income earned within the account (e.g., investment earnings) will not be taxed until withdrawal, like other traditional IRAs. During the growth period, savings in Trump Accounts must be invested in a diversified index fund of U.S. stocks and must minimize fees and expenses. Starting on January 1 of the year the child turns 18, contributions, investments and withdrawals follow the same rules as other traditional IRAs.

Key Features and Rules of Section 530A Accounts

1. Government Seed Contribution: Every eligible child born receives a one-time pre-tax government contribution of **\$1,000** placed into their Section 530A account in Year 1.

2. Private Contribution Limits: Parents, family and friends can make after-tax annual contributions (in cash or qualified stock contributions) up to **\$5,000** per child through age 17. Employer contributions up to **\$2,500** per year tax-free (to employee) per employee (across all children's accounts) count towards the per child limit. **Qualified stock contributions** (and associated transferred gains) must remain in the Section 530A account for a minimum 5-year holding period before penalty-free distributions or conversions of those specific contributed assets can occur.

3. Tax-Deferred Growth: Investments grow tax-deferred until withdrawn.

4. Pro-Rata Taxation Structure: Withdrawals and conversions consist of both non-taxable cost basis (after-tax parent contributions) and taxable earnings/seed money, calculated on a pro-rata basis.

Children's Savings and Wealth-Building Accounts Comparison

When comparing savings and wealth-building vehicles for your children, consider: the primary savings goal, whether earned income is required, whether there are contribution limits or incentives, the tax treatment, withdrawal rules, and investment restrictions.

Although Trump Accounts offer a \$1,000 pre-tax government contribution, planning is required to avoid unnecessary taxes on withdrawals. While Custodial Roth IRAs for Kids are one of the most attractive tax-free retirement vehicles, they require the child to have earned income. Although 529 accounts offer tax-free withdrawals for qualified education expenses, non-qualified withdrawals are subject to penalties and taxes. While Custodial accounts are very flexible, they are subject to the Kiddie Tax.

Children's Savings and Wealth-Building Accounts Comparison				
Feature	530A Trump Account	Custodial Roth IRA for Kids	529 Education Savings Plan	Custodial Account (UGMA/UTMA)
Primary Savings Goal	Long-term wealth building & retirement.	Retirement & early investing.	Qualified education expenses.	Flexible, unrestricted needs.
Earned Income Needed?	No; open to any minor under 18 with an SSN.	Yes; child must have verifiable earned income.	No; open to any named beneficiary.	No; open to any minor.
Annual Contribution Limits (2026)	\$5,000 total max from all sources combined.	\$7,500 max or 100% of child's earned income (whichever is less).	No strict annual limit; up to \$19,000/year super-funding gift tax exemption.	No limit; subject to the \$19,000/year per-individual gift tax exclusion.
Unique Incentives & Funding	\$1,000 one-time Treasury seed (for births 2025–2028); up to \$2,500/year tax-free (to employee) employer contribution per employee (across all children's accounts).	Subject entirely to family/individual contributions from earned income.	Occasional state tax deductions or matching grants depending on residency.	Subject entirely to family/individual gifting.
Tax Treatment	Contributions are after-tax; grows tax-deferred.	Contributions are after-tax; grows 100% tax-free.	Contributions are after-tax; grows 100% tax-free.	Subject to annual taxation via the "Kiddie Tax" rules.
Withdrawal & Penalty Structure	Locked until age 18. Converted to Traditional IRA at 18. Penalty-free for education, first home, or after 59½ (gains taxed as ordinary income). Stocks 5-year holding period.	Principal can be withdrawn penalty-free anytime. Earnings tax-free after age 59½.	Tax-free for qualified education. Non-qualified takes 10% penalty + income tax on gains. Up to \$35k lifetime rollover to Roth.	Unrestricted once child reaches the age of majority (18 or 21 depending on the state). Gains taxed at capital gains rates.
Investment Restrictions	Strictly limited to low-cost, U.S. market-based index funds/ETFs during childhood.	Unrestricted (stocks, bonds, mutual funds, CDs, fractional shares).	Limited to state-vetted portfolios, age-based options, and target-enrollment funds.	Unrestricted (stocks, mutual funds, bonds, CDs, and options trading).

Action Step — Get the Most Out of Trump Accounts

Work closely with your Registered Investment Adviser (RIA) to optimize your contributions and withdrawals from Trump Accounts in the context of your financial plan.

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