Skloff Financial Group

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Question of the Month

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Q: We read 'How to Get the Most Out of Trump Accounts' Part 1. Can you further explain the accumulation and distribution phases of Trump Accounts and how to get the most out of them?

The Problem — Building Wealth and Avoiding Unnecessary Taxes with Trump Accounts
The true financial advantage of Trump Accounts lies not solely in the accumulation phase, but in how distributions and Roth conversions are orchestrated across a beneficiary's early adulthood. A poorly executed strategy can trigger substantial, unnecessary taxes.

The Solution — Optimizing the Accumulation and Distributions Phases of Trump Accounts
Authorized under Internal Revenue Code (IRC) Section 530A, Trump Accounts represent a breakthrough in child savings and tax-sheltered wealth accumulation. By pairing federal pilot funding with private after-tax contributions during childhood, Section 530A creates a powerful investment vehicle. To achieve maximum tax efficiency, account holders must navigate three distinct life, career, and tax phases - transitioning pre-tax earnings into a fully tax-free Roth IRA while minimizing lifetime taxes.

Section 530A Trump Accounts: Strategic Lifecycle Summary Matrix

Age Range	Phase	Strategy	Tax Mechanics and Impact
Ages 1–17	**Accumulation Phase**	Maximize After-Tax Contributions ($5,000/yr base + COLA)	Establishes dual-track basis (after-tax family vs. pre-tax seed/growth). Compounds tax-deferred through age 17.
Ages 18–21	**College Phase**	Convert Up to Kiddie Tax Parent-Rate Cliff	Navigates Kiddie Tax (IRC §1(g)) rules to fill the tax-free floor and 10% child tier without triggering high parent tax brackets.
Ages 22–23	**Early Career Phase**	Rapid Liquidation Up to Top of 22% Bracket	Converts remaining balance on top of salary to achieve full liquidation to a tax-free Roth IRA by Age 23, with tax paid from outside funds.

1. Accumulation Phase (Ages 1–17): Building Basis and Tax-Deferred Growth
The foundation of Section 530A begins at birth. Every eligible child receives a one-time pre-tax government pilot contribution of $1,000 in Year 1, establishing an initial pre-tax balance with zero tax basis. Parents, grandparents, and relatives can supplement this seed with after-tax contributions up to $5,000 per year (adjusted periodically for inflation rounded down to the nearest $100 per IRC §530A(c)(2)(B)).
During this 17-year horizon, assets compound tax-deferred. Critically, Section 530A accounts establish a dual-track accounting structure:

- Non-Taxable Cost Basis: Created strictly by after-tax family contributions.
- Taxable Pre-Tax Portion: Composed of the government seed plus all cumulative investment growth.

Under IRS pro-rata rules, every distribution or Roth conversion carries a proportional mix of tax-free basis recovery and taxable income.

The Strategic Triad - Maximum Tax Optimization Across Adult Tiers
Upon reaching adulthood at age 18, the strategy transitions from accumulation to systematic Roth conversions. Because converting traditional account balances into a Roth IRA triggers ordinary income tax on the taxable growth portion, timing conversions is essential.

2. College Phase (Ages 18–21): Navigating Kiddie Tax Rules
While the child is a full-time student and claimed as a dependent, unearned income from conversions is governed by the **Kiddie Tax** (IRC §1(g)). Under these rules, conversion income first fills a tax-free unearned floor and a 10% child-rate tier. However, converting beyond the Kiddie Tax parent-rate cliff triggers the parents' higher marginal rate. The optimization strategy executes systematic conversions capped precisely at the parent cliff, harvesting tax-free basis recovery and low-bracket growth while completely avoiding parent rate spikes.

3. Early Career Phase (Ages 22–23): Rapid Liquidation and Lifetime Roth Rollover
When the young adult enters the workforce and earns a starting salary, Kiddie Tax rules expire. Assuming an 8% average annual return, attempting a slow, prolonged conversion schedule fails as ongoing growth outpaces lower bracket room. Instead, the strategy executes rapid conversions on top of salary up to the top of the 22% bracket. This completely liquidates the traditional account to $0 by Age 23. Paying the resulting conversion tax from outside family gifts avoids early withdrawal penalties, securing decades of tax-exempt compounding inside a Roth IRA.

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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