

How the New Trump Accounts for Children Work: What Families Should Know Before Funding One

The One Big Beautiful Bill Act (OBBBA) created a new tax-advantaged savings vehicle for children known as a Trump Account (TA). Since the legislation passed, several clients have asked whether they should open one for their children or grandchildren. The short answer: the mechanics are straightforward, but the harder question is whether these accounts improve tools families already have.

Below is a breakdown of how Trump Accounts work, how they're taxed, and where they may, or may not, fit into a broader wealth strategy. For a summary of the Invest America Act and an introduction to Trump Accounts, click [here](#).

The \$1,000 Head Start

If your child is a U.S. citizen born between 2025 and 2028, you can open a Trump Account and receive a one-time \$1,000 contribution from the federal government. All children under age 18 with a Social Security number are eligible to open a TA, even if they don't qualify for the \$1,000 seed. To establish the account, you'll either:

- File Form 4547, "Trump Account Election(s)," with your 2025 federal return, or
- File the form separately via an online IRS portal expected to launch later this year.

The government's one-time \$1,000 contribution does not count toward the annual contribution limit. For families who qualify, the seed contribution is a straightforward government subsidy.

Contribution Rules

Beginning July 4, 2026, parents, grandparents, or other individuals may contribute up to a combined \$5,000 per year per child to an established TA for that child's benefit. The \$5,000 limit will be indexed for inflation starting in 2028. Contributions can continue through the year in which the child turns 18.

Example:

If your grandson is born in 2026 and qualifies for the government contribution, his account could receive \$1,000 (government contribution) plus \$5,000 (family contributions) for a total of \$6,000 in his first year. You could contribute another \$5,000 in 2027. In 2028, the cap adjusts for inflation, and contributions may continue through 2044, the year he turns 18.

Employer and Institutional Contributions

OBBBA also opens the door to additional funding sources. After July 4, 2026, employers may contribute up to \$2,500 annually to a TA on behalf of an employee under age 18 or an employee's under-age-18 dependent. These contributions are deductible by the employer, excluded from the employee's income, and count toward the child's \$5,000 annual cap.

State and local governments, tribal governments, and certain nonprofit organizations may also contribute under rules that are still being developed by the IRS. These "qualified general contributions" must apply to a defined group of children and do **not** count toward the \$5,000 annual limit. For example, the [Michael & Susan Dell Foundation](#) has pledged to seed TAs with \$250 for children aged 10 and under who live in ZIP codes where the median household income is less than \$150,000.

Investment Restrictions Before Age 18

Until the year the child turns 18, Trump Accounts can only invest in mutual funds or ETFs that:

- Track a qualified U.S.-based index
- Do not use leverage
- Charge fees no higher than 0.10%
- Meet additional IRS criteria

In practice, this means the accounts are limited to low-cost passive index funds. From an investment perspective, that structure is sensible. It reinforces a principle we emphasize with clients – long-term compounding tends to be driven more by cost discipline and diversification than by tactical investment selection.

What happens at age 18?

In the year the child turns 18, the TA automatically converts into a traditional IRA and becomes subject to normal IRA rules.

That means:

- Additional contributions require earned income
- Contributions may be deductible depending on income levels
- Withdrawals are taxed as ordinary income
- Early distribution penalties may apply before age 59 ½

Whatever tax advantages exist during the early years ultimately funnel into the traditional IRA system, which should ultimately shape any discussion about whether TAs for your children make sense within the broader context of your planning goals.

The Long-Term Compounding Story

To illustrate the potential, assume:

- \$1,000 initial government contribution
- \$5,000 annual contributions for 17 years, with a 2.5% annual inflation adjustment beginning in 2028
- 6% annual investment return

Under those assumptions, the account could reach roughly \$198,000 by age 18, after approximately \$112,000 in total contributions. If no additional contributions were made and the funds stayed invested at the same return until age 65, the balance could grow to approximately \$3.26 million. A tale as old as time.

However, inflation matters. At a long-term inflation rate of 2.5% per annum, that \$3.26 million would have the purchasing power closer to \$650,000 in today's dollars.

So, there are two main takeaways: 1) starting early meaningfully increases the impact of compounding, and 2) inflation steadily erodes future purchasing power, which is why saving needs to continue well beyond childhood. But compounding alone doesn't determine whether this is the most efficient strategy. Tax structure matters just as much as growth.

The Tax Question: Ordinary Income vs. Capital Gains

Inside a Trump Account, investment growth is tax-deferred. Once the account converts to a traditional IRA, withdrawals are taxed as ordinary income, not long-term capital gains.

Using the same projections, if the account grows to approximately \$3.26 million by age 65 and the full balance is withdrawn, the entire distribution would generally be taxed as ordinary income, less the original direct contribution amounts. At a combined federal and state marginal rate of 35–40%, the after-tax value could fall to roughly \$1.95–\$2.10 million.

Now, let's consider the alternative. If the same dollars had been invested in a taxable brokerage account using a low-turnover index ETF and held for the same period, most of the gain would likely qualify for long-term capital gains treatment. At a combined rate of around 23–25%, the after-tax value could remain closer to \$2.40–\$2.50 million.

This simplified comparison ignores tax drag from dividends along the way, but it highlights the structural question: *Does converting potential capital gains into future ordinary income improve the outcome?* For many high-income households, the answer is likely no.

Flexibility Matters, Too

Tax rates are only part of the equation. Funds in taxable brokerage accounts, custodial or UTMA structures, or certain trust arrangements can be accessed at any time, without the early distribution penalties that come with retirement accounts. That flexibility matters over a multi-decade horizon. Life rarely follows a clean retirement timeline. Young adults may want capital to:

- Start a business
- Purchase a home
- Fund a major relocation
- Cover early-career expenses

Traditional IRA rules generally impose a 10% early withdrawal penalty on top of ordinary income taxes before age 59½, with limited exceptions. Assets in taxable or custodial structures can be deployed whenever the need arises. For that reason, the decision to fund a Trump Account shouldn't be evaluated in isolation. It should be weighed against the vehicles that families already use: UTMA accounts, 529 plans, and trust-based gifting strategies. Each with different trade-offs among tax efficiency, control, and flexibility.

The Potential Impact of Roth Conversions

Roth conversions could significantly influence account strategies. Once the account becomes a traditional IRA at age 18, one potential strategy is to convert some or all the balance to a Roth IRA during years when the beneficiary's income is relatively low. If done in a low bracket, the conversion tax could be minimal, and the funds would then grow tax-free for life.

There are complications, however. Income for minors and dependent students may be taxed at their parents' marginal rate under the "kiddie tax," which limits conversion flexibility before the child is fully tax-independent. For many young adults, the most attractive Roth conversion window may be relatively narrow: after they're financially independent but before their income rises substantially.

It remains unclear how the IRS will treat Roth conversions from former Trump Accounts, and additional guidance is expected. If conversions are clearly permitted, the long-term case for Trump Accounts improves meaningfully, but until then, this planning opportunity remains somewhat theoretical.

How does this compare to a 529 Plan?

If the primary goal is education funding, a 529 plan is usually more efficient, as 529 plans offer:

- Tax-free growth for qualified education expenses
- The ability to roll unused balances to a Roth IRA (within limits)
- Potential state income tax deductions for contributions

Trump Accounts offer more flexibility in how funds can ultimately be used, but they sacrifice the tax-free treatment that make 529 plans a powerful tool for education planning. For most families, the choice comes down to aligning the account with the intended purpose of the savings.

The Gift and GST Tax Uncertainty

One major issue that remains unresolved is how contributions to Trump Accounts will be treated for federal gift and generation-skipping transfer (GST) tax purposes.

In January 2026, the American College of Trust and Estate Counsel (ACTEC) submitted **formal comments** to the IRS in response to Notice 2025-68. Their concern is that the statute creating Trump Accounts does not clearly state that contributions qualify for the annual gift tax exclusion that is typically used when funding other pre-existing vehicles like UTMAs, Trusts, or 529s. Without clarification, contributions could technically be treated as gifts of a future interest rather than a present interest. If that interpretation prevails:

- Contributions would not qualify for the annual gift tax exclusion
- Donors would need to file a federal gift tax return
- Lifetime exemption would need to be applied
- GST exemption may also need to be allocated if the beneficiary is a skip person

For most families contributing \$5,000 annually, this would not create an actual tax liability. However, it introduces administrative complexity that does not exist with other planning tools. A technical correction from Congress or regulatory clarification from Treasury would likely resolve this issue. As of this writing, proposed regulations are expected but have not yet been finalized.

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