



## How the new Trump Accounts for children will work

A new tax-advantaged way to help children build up savings for the future was created by the One Big Beautiful Bill Act (OBBBA): Trump Accounts (TAs). Under a pilot program, you can make an election to set up a TA for your U.S. citizen child born in 2025 through 2028 and the federal government will fund the account with \$1,000 of free money. But older children also are eligible for TAs as long as they have a Social Security number and are under 18 at the end of the tax year; they just aren't eligible for the \$1,000 government contribution.

### Getting started

One way to set up a TA is to file Form 4547, "Trump Account Election(s)," along with your 2025 federal income tax return. But the form doesn't have to be filed with a tax return; it can be filed anytime through an online portal that is expected to be available this summer.

After July 3, 2026, you and any other individual, such as a grandparent, can begin making annual TA contributions of up to a combined limit of \$5,000 (adjusted for inflation starting in 2028) until the year your child turns 18.

The \$1,000 government contribution doesn't count against the annual limit. So, if your child is born this year, up to \$5,000 could be contributed to his or her TA in 2026 on top of the \$1,000 from the government.

### Other contributions

Employers can set up a TA contribution program. After July 3, 2026, employers can contribute and deduct up to \$2,500 annually (adjusted for inflation starting in 2028) to a TA for an eligible under-age-18 employee or an employee's eligible under-age-18 dependent. (Employers can't contribute more than \$2,500 per employee, even if an employee has multiple eligible dependents.) These contributions count against the \$5,000 annual contribution limit. Employer contributions are excluded from the employee's taxable income.

State, local or tribal governments and tax-exempt 501(c)(3) organizations can also make tax-free contributions to TAs under rules to be established by the IRS. These qualified general contributions *aren't* subject to the \$5,000 annual contribution limit and must be provided to all children within a qualified group, as defined.

### **Tax treatment and other requirements**

Contributions aren't deductible for individual contributors, but the account earnings can grow tax-deferred as long as they're in the account. Generally, no distributions can be taken from the TA before the year your child turns 18.

Until the year your child turns 18, the account can invest only in certain eligible investments. These are mutual funds or exchange traded funds that 1) track a qualified index, 2) don't use leverage, 3) don't charge fees of more than 0.1% of the invested balance, and 4) meet other criteria that may be set by the IRS.

### **After age 18**

In the year your child turns 18, the TA will transition into a traditional IRA. It will become subject to the familiar federal income tax rules governing traditional IRA contributions and distributions.

So, your child will have to have earned income to make any further contributions to the account. But those contributions will be deductible if he or she is eligible, and the higher IRA annual contribution limit will apply.

Also starting with the year your child turns 18, distributions can be taken. But the distributions will generally be at least partially taxable, and IRA early withdrawal penalties could also apply. So it's best to leave the account untouched so that it can continue to grow tax-deferred.

### **Weighing your options**

If your child is eligible for the \$1,000 government contribution, you'll want to set up a TA to at least get this free money and take advantage of the tax-deferred growth on it. And it can be an even more powerful savings tool if you also make contributions.

Say you put \$5,000 a year into your child's TA for the first 17 years of his or her life after collecting the \$1,000 of free money from the government in Year 1. If the account earns 5% annually, it will be worth about \$138,000 by the time your child turns 18. Say your child leaves the money invested in what's now a traditional IRA until age 65. If the account continues to earn 5%, it will grow to almost \$1.44 million. Once your child starts having earned income, he or she can make additional contributions to what is now a traditional IRA and have an even bigger account balance at retirement.

However, before making TA contributions, consider whether other tax-advantaged savings options might better achieve your goals. For example, if you want to build up funds for your child's education, contributing to a Section 529 savings plan may be a better fit. Distributions used to pay qualified education expenses will be *tax-free*, and some or all of any remaining balance after your child graduates can eventually be converted to a Roth IRA, with tax-free distributions.

### **Learn more**

TAs are worth considering, especially if you can afford to make significant annual contributions. If you have questions about TAs or want more information about other tax-advantaged savings options to benefit your children — or grandchildren — contact us.