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'Trump Accounts' for Children Come With Tax Complications

These IRAs for babies offer a free \$1,000 from the Treasury Department for the next few years

BY ASHLEA EBELING

Politicians wanted to give kids a \$1,000 kick-start on investing. The way Congress did it is complicated.

The new type of savings account for children that made it into the One Big Beautiful Bill Act changed radically as it moved through Congress, down to the name of the account. Observers of the provision are still trying to make sense of it.

Under the final iteration, the so-called Trump accounts are custodial individual retirement accounts for kids, with special rules until the year the child turns 18. For the next few years, they come with \$1,000 of seed money from the Treasury Department for newborns. That money would grow tax-deferred, with income taxes due upon withdrawal.

The free \$1,000, and potential additional contributions from employers and charity, is certainly a good deal. Financial advisers say the best case for adding family money to the accounts could be for wealthy people who have already maxed out 529 savings plans and want to also jump-start their young children's retirement savings.

For most families it doesn't make sense to add money. 529 savings plans and even custodial accounts are more flexible and have better tax advantages for parents' contributions.

Who is eligible?

Any child with a Social Security number who is under age 18 in the year the account is established can have one.

Under a pilot program, the Treasury Department would seed the accounts with \$1,000 for children born between Jan. 1, 2025 and Dec. 31, 2028 who have a Social Security number and are U.S. citizens.

The program is slated to cost the Treasury \$15 billion through 2034, according to the Joint Committee on Taxation.

When are they available?

The accounts are expected to roll out in 2026, and parents and others will be able to start contributing that July. The Treasury Department will oversee the program, and banks or other financial institutions will administer accounts.

What are the investment options?

The investments must be in lowcost mutual funds or exchangetraded funds that are made up of mostly U.S. equities. Industry and sector-specific indexes aren't permitted. The funds are limited to those with an expense ratio of up to 0.1%.

What are the contribution limits?

Beyond the \$1,000 federal seed money, others will be able to contribute to the accounts.

Parents, relatives and friends could contribute up to \$5,000 annually in after-tax dollars for years before the year the child turns 18. That amount increases annually with inflation.

Employers could contribute up to \$2,500 for an employee or an employee's dependent. The \$2,500 cap will be indexed for inflation starting in 2028. President Trump was joined by a group of CEOs to tout the accounts in June. Michael Dell, the Dell Technologies founder and CEO, pledged to match the federal \$1,000 seed money for every child born to a Dell team member.

Charities could also contribute to these accounts if the contributions are made on an equal basis to all the children in a certain geographic area or birth year, for example. At the White House event, Dell also said that he and his wife would expect to make a significant gift through their family foundation.

Gregory Leiserson, a senior fellow at the Tax Law Center at NYU Law, said that some companies could use these accounts as a way to curry favor with the administration.

When can the money be taken out, and how is it taxed?

Taxes are where the accounts get really complicated. It depends on who put the money in, how old you are when you take it out, and what you're using it for.

You don't pay taxes on dividends and capital gains that remain in the account.

The beneficiary could empty it and use the money for anything on Jan. 1 of the year he or she turns 18.

Say you just accept the \$1,000 and you use it for college. Then you pay federal income taxes on the withdrawal of the \$1,000 and any earnings.

Say you use it to buy a car. You'll also have to pay a 10% penalty.

There is an early distribution penalty for withdrawals before age 59½, unless an exception applies, such as using the money for higher education, or up to \$10,000 for a first-time home purchase.

If you use the money to buy a car after age 59½, you'll owe income taxes but no penalty. That would mean sitting on the account for decades.

To make matters even more complicated, say you contributed \$10,000 of after-tax money to the account on top of the \$1,000 seed money, and there is \$4,000 of investment earnings. Any distribution you take will be one-third taxable

because the \$1,000 seed money counts as earnings, and IRA distributions that include after-tax money are partially taxable. If you take out \$6,000 in this case, \$2,000 would be taxed, no matter what you use it for and at what age.

You can't cherry pick to take out just the after-tax contributions like you can do with a Roth IRA, said Ian Berger, an IRA analyst with Ed Slott & Co. in Rockville Centre, N.Y.

Contributions from employers and charities have the same tax treatment as the \$1,000 seed money.

Should you get a Trump account?

Financial advisers say a Trump account is certainly worth it for the free money, but parents should look at other savings options before they add their own funds to the accounts.

For parents saving for college, 529 college saving plans offer more substantial tax benefits. For older children, as soon as they start earning income, parents can help them set up a custodial Roth IRA. Contributions to those can come out tax-free anytime and are never subject to penalties.

Even an old-fashioned custodial brokerage account can beat a Trump account if it is invested in a mutual fund with low or no dividends, because the earnings would be taxed as capital gains, not as ordinary income, said Leiserson.

The accounts could make sense for parents who want to get a super-early start on their child's retirement nest egg, said Berger, since they do offer potentially decades of tax-deferred growth. Converting the account into a Roth IRA at age 18 could provide decades of tax-free growth.

But that is assuming the 18-year-old doesn't cash out.

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