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# Trump Accounts: A Useful Addition to the Savings Toolbox

New accounts for children offer a way to foster retirement savings from an early age.

Created as part of the 2025 federal tax reform, Trump Accounts add to the tools available to help children save for the future—in this case geared toward retirement. Unlike traditional retirement accounts, the owner/beneficiary does not need to earn income to make contributions. The accounts can be set up essentially from birth, extending the compounding potential that can be so valuable when it comes to long-term investment.

The new accounts have their own special rules, characteristics and uses. We provide an overview below.

## **An ‘IRA’ for Children**

Trump Accounts are tax-advantaged investment vehicles available to establish for children up to the end of the year they turn 17. The vehicles are similar to an Individual Retirement Account, although an adult (typically a parent or guardian) acts on behalf of the child/owner, setting up the account, choosing investments and making or securing contributions, until the year the child reaches age 18.

In a much-publicized provision, the federal government will provide a one-time \$1,000 seed contribution to Trump Accounts for children who are U.S. citizens born between January 1, 2025, and December 31, 2028. This contribution is meant to jump-start investments from an early age.

There are two additional ways to make contributions: First, individuals (whether directly or as part of an employee benefit plan) and their employers (as part of an employee benefit plan) can provide up to a total of \$5,000 per account per year (indexed for inflation after 2027). Note that employers can only contribute \$2,500 per employee—whether for the employee, if under 18, or the employee’s children. If the employee has multiple children, the funds may be divided among them. Second, states, localities and charitable organizations can make contributions that are not subject to the \$5,000 annual cap.

## Investment Options

The choices for investment within a Trump Account are fairly limited. Until the child reaches 18, the account may only be invested in mutual funds or ETFs that track the S&P 500 or another equity index where at least 90% of the assets are in U.S. companies. No leverage is allowed, and the funds cannot charge an expense ratio of more than 10 basis points. Fund providers can offer multiple options, but must also designate a default investment. When the account is eventually converted to an IRA (see facing page), the standard investment limitations associated with IRAs will apply.

## Tax Treatment

**Income tax** treatment of Trump Accounts depends on whether the contributions are considered pre-tax and have no basis, or post-tax and have basis. The federal \$1,000 seed money, employer contributions and qualified contributions from states, localities and charities have no basis. Those contributions are fully taxable when eventually withdrawn. In contrast, direct individual contributions are made with post-tax dollars and have basis, and thus withdrawals of those contributed amounts are tax-free.

In all of these cases, the accounts grow tax-free, but the investment earnings are taxable upon withdrawal. Accordingly, depending on how the account is funded, withdrawals may be part return of capital (which may or may not be subject to tax) and part earnings, which will be. Unfortunately, there can only be one Trump Account per child, so tracking the basis of the contributions will be important to enable proper tax reporting once withdrawals are permitted.

As for **gift taxes**, under the current rules, an individual's contribution to a Trump Account is considered a taxable gift, but is not eligible for annual exclusion treatment. Accordingly, such a contribution—no matter how de minimis—requires the filing of a federal gift tax return to report the transfer. That said, gift taxes may not be owed if the individual has not exceeded their federal gift and estate tax exclusion (currently \$15,000,000). It is possible that this tax treatment could change with new legislation or regulatory guidance.

## Setting Up a Trump Account

Trump Accounts will become available starting July 5, 2026, to U.S. citizens up to age 17 (as of the end of the election year) with a Social Security number. To open an account, an adult (usually a parent or guardian) must make an election with the IRS on behalf of the child, either by filling out the newly created Form 4547 or by using a tool on a government website, [www.trumpaccounts.gov](http://www.trumpaccounts.gov). Claiming the \$1,000 federal contribution requires a separate election that can be made at the same time. The adult (now the responsible party) can subsequently set up the account based on instructions from the IRS, starting on July 5, 2026. The federal government administers the accounts at first, but they can subsequently be rolled over to Trump Accounts at financial institutions.

## Trump Accounts in a Nutshell

- Trump Accounts will become available on July 5, 2026, offering a new way for children to get a head start on retirement savings.
- Minors up to age 17 are eligible for the federal program; an adult has to make an election on their behalf and then set up the account.
- The federal government will provide a one-time \$1,000 seed contribution for U.S. citizens born January 1, 2025, through December 31, 2028.
- Individuals and employers can together contribute a maximum of \$5,000 each year for a given beneficiary (who can only have one account); state and local governments, as well as charities, can contribute without limitation.
- Only low-cost, U.S.-focused index mutual funds or ETFs are eligible for investment; no leverage is allowed during the growth stage.
- Most withdrawals are not allowed until age 17; then, certain exceptions under the IRA rules will apply for withdrawals without penalty.
- Rollovers will be allowed to Trump Accounts provided at financial institutions.

## Rollovers, Changes Upon Adulthood

Given their nature as long-term savings vehicles, there are very few permissible withdrawals from Trump Accounts in what's called their "growth stage" (until the start of the year the owner reaches age 18). If the assets are rolled over to another financial institution during this time, the respective tax bases of the contributions are maintained.

On January 1 of the year the owner reaches age 18, the account converts to a traditional IRA. At this point, standard IRA rules will apply, including limits on withdrawals before age 59½ (except for certain well-known exceptions), as well as (eventually) rules for required minimum distributions. It is possible to do a Roth conversion at this time, capitalizing on the likely low tax rate of the owner at that age, after which the account has the potential to compound on a fully tax-free basis.

## Gauging the Planning Role of Trump Accounts

Trump Accounts are probably best described as early, long-term retirement vehicles, and thus must be judged in relation to the various priorities that a given family may have for their child. For example, 529 accounts may offer more ample opportunities for education savings, while custodial accounts or trusts, although taxable, may provide additional resources for potential support. (See "Other Child Savings Options" at right.)

## Conclusion: Waiting for Further Developments

Trump Accounts are an entirely new type of savings vehicle, and the IRS has yet to iron out all the rules that apply—further guidance is pending. Moreover, it may take a while before financial institutions are ready to provide the accounts, and before employers, charities and state/local governments start to take advantage of them. Importantly, the Trump administration is planning an outreach to encourage greater involvement and access. That said, we are optimistic that Trump Accounts can prove useful to many families. We will be watching closely as events progress.


## Other Child Savings Options

**529 Plans.** These are tax-advantaged accounts designed to generate savings for education. Parents, grandparents and others can contribute after-tax dollars to an account where they can grow on a tax-exempt basis and avoid taxation on withdrawals if used for a variety of educational expenses for K-12, college and trade schools. The states set contribution limits, often at relatively high levels. Subject to gift tax rules, contributions can qualify for the current \$19,000 annual exclusion. Moreover, it's possible to front-load up to five years of exclusion contributions into one year without triggering gift taxes. Under current law, that means an individual could give \$95,000 (\$19,000 x 5), or \$190,000 if gift-splitting with a spouse. Some states allow a deduction from state incomes taxes (typically up to \$5,000) for 529 contributions. Finally, balances of up to \$35,000 may eventually be converted to an IRA for the child under defined circumstances.

**UTMAs/UGMAs.** These custodial accounts afford investment flexibility, enable largely unlimited contributions, and can be used for a broad range of purposes. Parents or others can provide the funds for the account, subject to gift tax rules. A custodian manages the account for the child and can make withdrawals for the child's benefit. Upon reaching the age of majority, the child takes full control of the account. Contributions to the account are after-tax, and investment earnings are fully taxable in the year they are generated at the child's tax rate. "Kiddie tax" rules that attribute the child's earnings to the adult may also be triggered, and assets may be considered in financial aid calculations.

**Custodial IRAs.** For children who have earned income, parents can set up a custodial IRA that provides a way to start saving for retirement early. Under IRA rules, deductible contributions of up to \$7,500 per year (as of 2026) are permissible. Given likely low tax rates at this age, it may make sense to establish a Roth IRA where after-tax contributions can grow tax-free thereafter.

**Irrevocable Trusts.** A variety of irrevocable trusts may be appropriate to support children. Consult with your estate planning attorney for further details.



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