Overview

A new federal program, part of the 2025 OBBBA, is meant to open individual retirement-style investment accounts for children under age 18, plus with an enhanced government benefit specifically for those born between January 1, 2025 and December 31, 2028.

The account is similar to both a non-deductible IRA and a §529 plan, and has a precedent in the law with President Obama's somewhat similar myRA which was discontinued in 2017 because of low participation.

BBB Changes

BBB Act Section 70204 added new §530A called Trump Accounts modeled loosely on a combination of §529 and non-deductible IRA features.

Any child with a Social Security number who is under age 18 by the end of the year the account is established can have one. Under a pilot program, the Treasury Department will also pre-fund the accounts with $1,000 for children born after 12/31/2024 and before 1/1/2029 who have a Social Security number and are U.S. citizens. There are no income requirements to open an account like is required for an IRA.

The accounts will start in 2026, and allow a maximum, non-deductible inflation adjusted annual contribution of $5,000 from all sources. Contributions to the accounts can start in July 2026 and can come from anyone. Rollovers from other accounts are not subject to, and do not reduce, the $5,000 annual deposit limit, and the one-time $1,000 Federal deposit for qualified newborns also does not reduce the annual contribution limit.

Employers could contribute up to $2,500 per lifetime for an employee or an employee's dependent in a fully deductible qualified fringe benefit for the employer which is tax free to the recipient until withdrawn. The $2,500 lifetime employer contribution cap will be indexed for inflation starting in 2028. Contributions to a Trump account do not reduce any other retirement contribution limits for which the child may qualify.

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.

The investments must be in low-cost mutual funds or exchange-traded 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%.

Much like conventional IRAs and §529s, earnings are not taxed while in the plan, but no withdrawals may occur before year in which the child is age 18. It currently appears that the accounts could be converted to a Roth IRA, much like a non-deductible IRA.

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Withdrawals

Withdrawals of earnings (and the $1,000 from the Federal, employer and charitable contributions) will be taxed at ordinary rates, and subject to the 10% early withdrawal penalty before age 59 ½ unless used for education, first home purchase, or to start a business.

Withdrawals will follow the common pot rule generally used for non-deductible IRAs. So contributions from Federal, charities, employers and earnings will all be taxed upon withdrawal under the common pot rule using the formula where the numerator is (earnings + Federal contributions + employer contributions + charity contributions/total account value) times withdrawal equals taxable portion.

Discussion and Planning

Detailed Example

Edna and Elwood Smith have two children: Maya born in March 2025 and Ethan born in May 2027.

Each child gets the $1,000 Federal deposit since they were born between 1/1/2025 and 12/31/2028. Starting July 1, 2026, the Smith family contributes $5,000 each for both Maya and Ethan, staying at the $5,000 annual cap. They invest in index ETFs.

No distributions are made until Maya turns age 18 in 2043 and Ethan in 2045. Once Maya turns 1age 8 (in 2043), taxable, un-penalized withdrawals are permitted for college, a first home, or starting a business. Unqualified withdrawals are taxed on earnings plus a 10% early withdrawal penalty.

Funds can remain tax-deferred in the account until the normal IRA required beginning date for required minimum distributions, which will be age 75 for these kids under current rules.

Let's say at age 18 Maya has the following in her account:

Post-tax-contributions (17 x $5,000) =	$85,000
Federal Contributions	1,000
Earnings	70,000
Total value	$156,000

Under the common pot rule, $71,000/156,000 of any withdrawal would be taxed, and if used for non-qualified purposes, subject to the 10% penalty.

What if Edna's employer had put in 2,500 for Maya and for Ethan? Maya's new numbers would be:

Post tax contributions	$ 82,500
Employer contributions	2,500
Government contributions	1,000
Earnings	70,000
Total value	$156,000

$73,500/156,000 would be the common pot taxability rule.

Is a Trump account a good idea?

Clearly for any child born between 2025-2028 it is worthwhile to open the account.

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There is also an advantage to being able to open what is essentially a non-deductible IRA without the requirement to have earned income. Some pundits say a §529 is better than this, but a §529 does not allow tax-free withdrawals for a new home or business!

On the other hand, many states offer a state deduction or credit for a §529 deposit. Frankly, if there is enough money, the parent or grandparent could do both the Trump account and a §529 account to the extent of the state credit or deduction. However, at age 18, the kid owns the account and the parent loses the control they maintain with a §529.

Because the Trump account appears to qualify for Roth conversion, the author is a fan of the account because of the following:

- Tax-free accumulation
- No earnings requirement for contributions
- Greater withdrawal flexibility than §529 accounts
- Convert slowly to Roth after age 18, keeping conversion amounts under taxable income floor
- Ability to still contribute to §529 account in greater amounts with potential state credit
- The Trump account is a retirement account and under current rules would not count against financial aid for the student

The taxpayer or grandparent with enough cash flow would do both a Trump account and a §529 plan.

Future Value Comparison
Assuming 17 annual deposits at the beginning of the year of $5,000.

6% earnings rate	$149,528
8% earnings rate	$182,251
10% earnings rate	$222,996

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