Trump Accounts

Roger McEowen (roger.mceowen@washburn.edu) – Washburn University School of Law

August 2025

Agricultural Law and Taxation Blog, by Roger McEowen: https://lawprofessors.typepad.com/agriculturallaw/

Used with permission from the Law Professor Blog Network

Overview

Trump Accounts are a new investment vehicle for parents of newborns. They have some unique features and are only good for a short window of time (unless extended). One another note, AGI issues remain concerning USDA's Supplemental Disaster Relief Program.

These are the topics of today's post.

Trump Accounts

The One Big Beautiful Bill Act (OBBBA) introduces a new savings vehicle to help parents of newborns build a foundation of wealth for their children. Named "Trump Accounts," these universal child savings accounts represent the first federal initiative of their kind.

Eligibility and opening. Starting January 1, 2026, parents can open Trump Accounts for their children born after 2024 and before 2029. To be eligible, both the child and their parents must be U.S. citizens with valid Social Security numbers. This is designed to ensure that the benefits of the program are directed to those with a permanent stake in the nation's future.

Seeding and contributions. A unique feature of a Trump Account is that each new account will be "seeded" with an initial $1,000 contribution from the government. This amount will be adjusted for inflation annually, beginning in 2027. Annual contributions to a Trump Account are capped at $5,000 per beneficiary. These contributions are made on an after-tax basis. To further incentivize savings, a parent's employer may also contribute up to $2,500 annually on a tax-free basis. Importantly, any employer contributions count toward the $5,000 cap.

Investment and growth. Account funds within a Trump Account must be invested in low-fee U.S. equity index mutual funds. This requirement is intended to provide several key benefits:

- **Diversification:** Index funds offer broad market exposure, mitigating the risk associated with investing in individual stocks.
- **Low Cost:** The low expense ratios of these funds ensure that more of the investment returns stay in the account, maximizing long-term growth.
- **Simplicity:** The straightforward investment options make these accounts accessible and easy for all parents to manage, regardless of their financial expertise.

The earnings on these investments grow tax-deferred, allowing the power of compounding over many years without being eroded by annual taxes.

Withdrawals and penalties. To encourage long-term savings, withdrawals are not permitted before the beneficiary reaches age 18. This restriction is a cornerstone of the program, designed to ensure the funds are available for a child's transition into adulthood. However, there are a few limited exceptions:

- **Rollovers:** Funds can be rolled over to another Trump Account or to an ABLE account for a child with a disability.
- **Excess Contributions:** Distributions may be allowed to correct and withdraw contributions that exceeded the annual limit.
- **Death of the Beneficiary:** In the unfortunate event of the beneficiary's death, withdrawals would be permitted.

These exceptions are strictly for administrative or exceptional circumstances and do not allow for the use of the funds for general purposes before the beneficiary turns 18. The program's design is focused on preserving the principal and earnings until the beneficiary can use the funds to build a foundation for their adult life, such as for higher education or a first home purchase.

Upon reaching age 18, the beneficiary can withdraw the principal contributed to the account completely tax-free. This provides a substantial, untaxed sum for a young adult to use as they see fit. The earnings portion of any withdrawal is taxable at ordinary income rates, *unless* it is used for qualified purposes, such as paying for college or other specified educational expenses. This provision is designed to incentivize the use of these funds for further education and personal development.

Any non-qualified early withdrawals (before age 18) are subject to significant penalties, reinforcing the long-term savings objective of the program.

Conversions. Based on the design of the "Trump Accounts" as a new savings vehicle for children, a direct conversion to a Roth or traditional 401(k) is not permitted before the beneficiary reaches age 18.

Impact When Beneficiary Turns 18. The program is structured so that upon reaching age 18, the Trump Account effectively transitions into a traditional IRA. At this point, the beneficiary can manage the account under the standard rules of a traditional IRA, which would allow for a conversion to a Roth IRA, but not a 401(k).

Observation: The Trump Account's "chassis" is that of a custodial IRA, not a 401(k). The transition to an IRA at age 18 is the designed path for the account's future, and a direct conversion to a 401(k) at any time is not part of the program's framework.

Financial institutions. Will financial institutions promote Trump Accounts? It depends. On one hand, there is a strong incentive for financial institutions to get involved. A new government-backed savings program, especially one with a federal "seed" contribution, represents a significant opportunity to attract new clients and gather assets. Financial institutions typically compete to offer and administer new government-sponsored savings plans, such as 529 college savings plans or Health Savings

Accounts (HSAs), because these products bring in new deposits and can lead to broader, long-term relationships with clients. For example, a bank that opens a Trump Account for a child may also be the first to offer that family a checking account, a debit card, or a mortgage down the line.

The promotion of Trump Accounts would likely follow standard financial marketing strategies. Financial institutions will likely use data to identify and market to eligible families, potentially through digital campaigns, mailers, or in-branch promotions. Similarly, they will create materials to explain the benefits of the accounts, how they work, and the long-term wealth-building potential. In addition, banks and credit unions might partner with employers to offer the accounts as a workplace benefit, highlighting the tax-free employer contribution as a key selling point.

On the other hand, a few factors could influence the level of promotion. The level of promotion will depend on the specific rules and regulations established for the accounts. The more straightforward the rules, the easier it will be for financial institutions to offer and market them. Also, while the accounts may be beneficial for consumers, financial institutions will need to ensure there is a clear path to profitability, whether through management fees on the invested assets or the ability to cross-sell other products.

Conclusion

The introduction of Trump Accounts represents a federal commitment to creating a new generation of savers and investors. Will it be enough of an incentive for parents to start their children on a path to wealth accumulation early in life? Only time will tell.