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Trump Accounts: Free Money, Is it a Good Savings Option?

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The federal government is offering U.S. citizen children born between January 1, 2025 and December 31, 2028 a $1,000 head start through the newly established Trump Account, but is this really the best place to build long-term savings?

WHAT IS A TRUMP ACCOUNT?

A Trump Account is a new type of tax-advantaged account under Section 530A of the tax code, allowing the opening of an account as soon as July 4, 2026. It is held in the child's name but managed by a parent or guardian until the child turns 18, at which point the child takes control and traditional IRA rules would apply. Families and employers can contribute up to $5,000 a year combined, with employer contributions capped at $2,500 per employee, and each child may hold only one Trump Account. Investments are limited to low-cost index funds and ETFs that track the broad U.S. stock market, with expense ratios of 0.10% or less. Withdrawals are restricted until age 18; and after that, early distributions before 59½ generally trigger income tax plus a 10% penalty.

PROS

The $1,000 seed money is free and could grow considerably over time through the power of long-term compound returns. There are no income limits and no earned income requirement for contributions. Any investment earnings from the Trump Account grow tax-deferred, avoiding the annual taxes that may apply to custodial accounts. For families who have maxed out other tax-advantaged accounts, it adds one more savings option. Once the child turns 18, the 10% early-withdrawal penalty is waived for certain exceptions including higher education expenses, a first-time home purchase (up to $10,000), unreimbursed medical costs, and a personal emergency withdrawal (up to $1,000/year). Also, when the child turns 18, the account may be converted to a Roth IRA. Because conversions can have tax implications, including potential Kiddie Tax, consult a financial advisor before proceeding. Charities and government entities may also contribute beyond the $5,000 cap, as their gifts do not count toward the limit. For example, Susan and Michael Dell (founder and CEO of Dell Technologies) announced a philanthropic pledge of $250 to the Trump Accounts of children 10 and under living in areas with a median household income under $150,000.

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CONS

The Trump Account is tax-deferred, not tax-free. Withdrawals are not permitted before January 1st of the year when the child turns 18 and are taxed as ordinary income (after accounting for contributions attributable to basis) when distributed. Only U.S. stock index funds are allowed, limiting diversification into bonds or international markets. There is an unresolved question about whether individual contributions qualify for the gift tax annual exclusion or count against the lifetime exemption, which is a reason to be cautious about large contributions for now. The account's effect on FAFSA and college financial aid is still unclear, so be aware it may count as a student asset. Individual contributions are made with after-tax dollars; there is no upfront tax deduction. While some states conform to federal rules, others rely on their own rules, leading to different state tax outcomes. The program is still new, and the IRS and Treasury are continuing to finalize the rules.

HOW TO OPEN A TRUMP ACCOUNT

1. File IRS Form 4547 with your tax return or go to trumpaccounts.gov.
2. Download the official Trump Account app on the App Store or Google Play.
3. After the account is opened at the initial custodian, Robinhood, the $1,000 seed deposit is made automatically by the Treasury (the IRS is expected to issue additional guidance on allowing the transfer of Trump Accounts from Robinhood to other financial institutions).

THE BOTTOM LINE

The $1,000 seed is worth claiming, so open the account as early as possible for compounding, but do not mistake free money for the best place to save. For most goals, other accounts are more tax-efficient: a 529 plan for college, a custodial Roth IRA for a child's retirement (assuming the child has earnings), or a custodial account for flexible savings before 18. Use the Trump Account for the free money and lean on these other options for serious saving – together they can give a child a real financial head start.

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