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Trump Accounts: *Custodial-Style IRA Accounts*

INTRODUCTION

Passed in the summer of 2025 as part of the “One Big Beautiful Bill”, § 530A[1] of the Internal Revenue Code provide for the creation of “Trump Accounts.” These accounts are custodial-style IRA accounts that provide a savings tool for children. To be eligible, the child must be under 18 the year the account is opened and have a valid social security number. These accounts will initially be opened by the Treasury but will be eligible to rollover.

CONTRIBUTIONS

Under the law, contributions to Trump accounts are allowed starting on July 4, 2026. Contributions are non-deductible and must be made before the year in which the account beneficiary turns 18. Aggregate annual contributions are limited to \$5,000, with some exceptions, and are indexed for inflation. Any individual is eligible to contribute to the Trump account, but it is unclear whether a contribution to someone else’s account is treated as a present gift that will qualify for the annual exclusions due to the restrictions on access.

One significant benefit of these accounts is the pilot program providing a \$1,000 contribution by the federal government.[2] This program is available to children born in 2025 through 2028. To claim the contribution, you may file an election using Form 4547 with your tax returns. An online option will also be available later this year.

Another tax-efficient funding method is through employer contributions. Employers can provide up to \$2,500 per year to Trump accounts, either for an employee or their dependents, on a pre-tax basis[3]. These contributions must be part of a separate written employer plan.[4] Any employer contribution received does, however, count toward the \$5,000 annual contribution limit.

Contributions may also be made by tax-exempt and government entities. These contributions do not count against the annual contribution limit if it meets the requirements as a “qualified general contribution”[5]. This is designed to allow for additional savings opportunities for a broad class of people, rather than for the benefit of a single or small class of beneficiaries.

ELIGIBLE INVESTMENTS

Investments in Trump accounts are limited to mutual funds and exchange traded funds (ETFs) that track a qualified index, does not use leverage, and has low fees (0.1% or less of fund assets).[6] The S&P 500 is specifically listed as a “qualified index”, but the law also allows for any index that invest primarily in the stocks of US companies, whether it is market-cap weighted or not, but specifically excludes industry- and sector-specific indices.

DISTRIBUTIONS

Distributions from Trump accounts are not allowed until the account owner reached age 18. When the account owner reaches 18, the account belongs to the account beneficiary and becomes subject to most traditional IRA rules and can be rolled over to an IRA account. Distributions are prohibited before age 18,[7] except for eligible rollovers to ABLE accounts at age 17 or to other Trump accounts.[8] Once the account owner turns 18, the IRA distribution rules apply, and any distributions before age 59.5 will be subject early distribution penalties unless an exception applies (tuition, first time homebuyer, etc.).

Distributions are taxed like IRA distributions—they are taxable to the extent the account balance exceeds the “cost basis” in the account. The “cost basis” is recovered on a pro-rata basis over the life of the account depending on the amount of the distribution and the FMV of the account in the year of the distribution.

Because contributions are not deductible, the account owner will have a “cost basis” from their investment in the account, namely contributions made by themselves and other individuals. Certain “tax-free” contributions to the account—such as the pilot program, employer plan contributions, and qualified general contributions—are not included in the owner’s cost basis.[9] Therefore, these amounts, plus any earning on the entire account balance, will eventually be taxable.

PROS AND CONS OF TRUMP ACCOUNTS COMPARED TO OTHER OPTIONS

The primary advantage of opening a Trump account belongs to people born between 2025 and 2028 because the government will fund the account with \$1,000. This alone makes opening a Trump account worthwhile. The good news is that opening the account does not foreclose other opportunities to save for you or your child’s future.

Funding through an employer plan, even if made through your own pre-tax contributions, can defer tax on the contributions and potentially shift the tax burden to someone taxed at a lower rate. This can be especially attractive if the beneficiary has no other income, converts the Trump account to an IRA when they turn 18, and converts the balance to a Roth IRA.

Compared to custodial IRA accounts (including Roth IRAs), Trump accounts have an advantage because contributions do not require earned income. This broadens access to those under 18 that do not work. However, for those that have earned income, there are better options available. Since contributions are not deductible and any earning in the account will eventually be taxed as ordinary income on distribution, a Roth IRA would be preferable: there is still no instant tax benefit on contribution, but the earnings and future distributions from a Roth IRA will be tax free, and a beneficiary will have better access to any account contributions without having to worry about penalties before retirement distributions are allowed.

For education planning, 529 accounts allow greater levels of contributions and better tax treatment for distributions for qualified education expenses.[10] While neither account allows a deduction (at least at the federal level), the potential of excluding all earnings of the 529 account from income is a much more attractive savings option. While distributions from Trump accounts for these expenses are exempt from penalties, the distribution is still subject to income tax (at least in part).

Another way to start saving for children and younger generations is custodial investment accounts, such as UTMA accounts. These accounts provide no tax deduction for contributions nor tax deferred growth opportunities, but they provide flexibility: the accounts can be accessed at any time, for any purpose. Furthermore, they allow the account holder to take advantage of preferential tax rates for dividends and long-term capital gains, especially if the account is invested in US equities like Trump accounts are mandated to be. However, the benefit of preferential tax rates is partially offset by being subject to annual tax on the income generated in the account; furthermore, income over a certain level could even be taxed at the beneficiary’s parents’ tax rate under the “kiddie tax” rules.[11] It is very important to pay attention to the income thresholds on an annual basis and do proper tax planning to minimize the tax impact of these accounts. Doing so could make them much more tax-efficient than Trump accounts over the long-term.

In conclusion, Trump accounts are a new tool for eligible individuals to help start saving and investing for the future. While it may not always be the best option, there are certainly cases where opening and contributing to one makes sense. For those with children born between 2025 and 2028, receiving the \$1,000 government contribution will make it worthwhile. In any case, it is best to consult with your advisor to consider the implications of each type of savings option to see what works best for your long-term plan.

[For additional planning insights, click here to visit Anchor's Value Observer.](#)

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[1] 26 U.S.C. § 530A.

[2] 26 U.S.C. § 6434.

[3] 26 U.S.C. § 128.

[4] 26 U.S.C. § 128(c).

[5] 26 U.S.C. § 530A(c)(2)(B); id. at § 530A(f)

[6] 26 U.S.C. § 530A(b)(3).

[7] 26 U.S.C. § 530A(d)(1).

[8] 26 U.S.C. § 530A(d)(3); 26 U.S.C. § 128(d)(4).

[9] 26 U.S.C. § 530A(d)(2).

[10] 26 U.S.C. § 529

[11] 26 U.S.C. § 1(g).



www.anchorcapital.com



617.368.3800



info@anchorcapital.com



Two International Place, Boston, MA 02110