



TRUMP ACCOUNTS FOR KIDS

\$1,000
FOR KIDS BORN BETWEEN
JANUARY 1, 2025 & DECEMBER 31, 2028

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NEW KID IN TOWN

By Trace Dixon

New Opportunity

“What can I do to help my child be better off than me?” It’s a question we hear all the time from parents looking to find opportunities to help their kids have a leg up starting out life. Our answer to that question has changed over time as new opportunities arose. In fact, my first regular quarterly newsletter was on this subject, specifically changes being made at the time to 529 Plans (you can go read it at southerncapitalservices.com by visiting our newsletter tab in the top center of the page and scrolling down to May 2024, “The Magic Number”) and whether it had become the best option to help kids start small in saving for the future!

Now there’s a new tool on the block: Trump Accounts (their official government name is actually “530(a) IRA” but that just doesn’t roll off the tongue in quiet the same way. Regardless, we’ll be referring to them that way since this is an official newsletter!) Launched officially on July 4th, we’ve had some time to watch and form some ideas around whether these are the next best vehicle or whether the 529 plan still holds the title as the preferred choice for setting up minors with a strong start.

What Do We Know So Far:

- A 530(a) account can be opened on behalf of children under the age of 18 at time of opening using the IRS Form 4547. Filers can also indicate whether their child qualifies for the \$1,000 pilot program

contribution. If your child was born between January 1, 2025, and December 31, 2028, their 530(a) accounts an additional initial \$1,000 deposit from the U.S. Treasury in seed money. **All kids are eligible for an account, but not all are eligible of the bonus money.**

- A child can only have one account and the current **contribution limits are \$5,000 per year for each account.** Parents, grandparents, relatives, or any other associated individuals can contribute After-Tax money, while **an employer can contribute up to \$2,500 Pre-Tax** to that overall limit. Local, State, and Federal Governments, along with charities, can also contribute Pre-Tax to a child's account. Unlike employers, these contributions will not count toward the \$5,000 overall limit. Yahoo Finance is reporting though that an amendment is currently in the works that will allow “employees [to] be able to contribute up to \$2,500 per year, tax-free, to their Trump Accounts through their paychecks, and employers would be able to match up to \$2,500 per year, tax-free.” (Pino, Trump accounts just added another perk for working parents, 2026)

- **There cannot be any distributions for any reasons from the account before the child turns 18.** The rules are not clear as to when an account will be converted, but regardless around the time a child turns

18 the account will be/will need to be converted into a Traditional IRA. From here the account will follow Traditional IRA rules, contribution limits, and withdrawal limitations.

- As of the time of publishing, **530(a) accounts are managed via trumpaccounts.gov and the Trump Accounts app.** Behind the scenes the Treasury has designated The Bank of New York Mellon Corporation as the official financial agent to manage the accounts with Robinhood serving as the initial brokerage platform and trustee. Eventually individuals will be able to roll their accounts over to a brokerage of their choice, although this process is still in the works and very little further information exists.
- Also, at the time of accounts launching and the publishing of this newsletter, 530(a) accounts are automatically invested in the **State Street SPDR Portfolio S&P 500 ETF (SPYM)**. The listed goal is for individuals to be able to invest these accounts in “a diversified investment vehicle designed to maximize long-term growth while minimizing risk.” Per the trumpaccounts.gov website. The Treasury is also in process of adding **iShares Core S&P 500 ETF (IVV)**, **Vanguard Total Stock Market ETF (VTI)**, **State Street SPDR Portfolio S&P 1500 Composite Stock Market ETF (SPTM)**, and **iShares Core S&P Total U.S. Stock Market ETF (ITOT)** as additional low-cost options with the potential for more options along the way. Currently all accounts are fixed in **SPYM** until allocation features are added to the setup and system.
- **Taxes are the snag that makes us pause at this time recommending 530(a) accounts over a 529 plan (barring the exception for children eligible for the free \$1,000 government seed money).** As mentioned earlier, 530(a) account contributions from me and you as individuals are made after-tax, meaning we’ve already paid taxes on that money (or won’t be able to take a tax break come filing time because of it). Since the account turns into a Traditional IRA after the child turns 18, any distributions from the account will be

taxable at Income tax rates unless some changes (like mentioned from the yahoo finance article) are made to the system. Basically, the money an individual contributes will be double-taxed, once on the way in to the parent and again on the way out to the child. Now employer contributions, government additions, or contributions from charities are made pre-tax and therefore would only be taxed once, when a distribution is made from the IRA after the child as turned 18. These are far more appealing and easier to recommend, although this segues into our other current concern with 530(a)’s.

- Distributions are heavily limited leaving 530(a) accounts to be only useable for setting up a child with an IRA that will be primarily for their retirement. **No money can leave it for any reason prior to the child turning 18, and once 18 all distributions will be subject to IRA taxation/penalty rules.** That leaves early distributions limited and taxable, compared to a 529 plan which can be used for qualified education expenses and once 18 can be converted into a Roth IRA where upon retirement distributions can be made tax-free and qualified exceptions (the same list as with a Traditional IRA) are withdrawn tax-free.

The Bottom Line:

As of the rules as we understand them today, we would advise anyone with a child born between 1/1/2025 and 12/31/2028 to open a 530(a) account in order to receive the free seed money being offered by the Treasury. If your employer is offering to make contributions for your child as a part of their benefit package, we would advise opening an account. If the rule changes we mentioned pass that allow for pre-tax contributions, there would be some opportunity for this to become a valuable tool in the toolbox for providing for the next generation. Until then, 529 plans remain the preferred option from a tax and investment standpoint.

Please remember to notify us if you have had any material changes in your financial circumstances.