Trump Accounts: Building Tax-Free Wealth from Day One

TURNING EARLY CONTRIBUTIONS INTO LIFELONG TAX-FREE GROWTH

ORIGINALLY PUBLISHED APRIL 2026
LAST UPDATED MAY 2026

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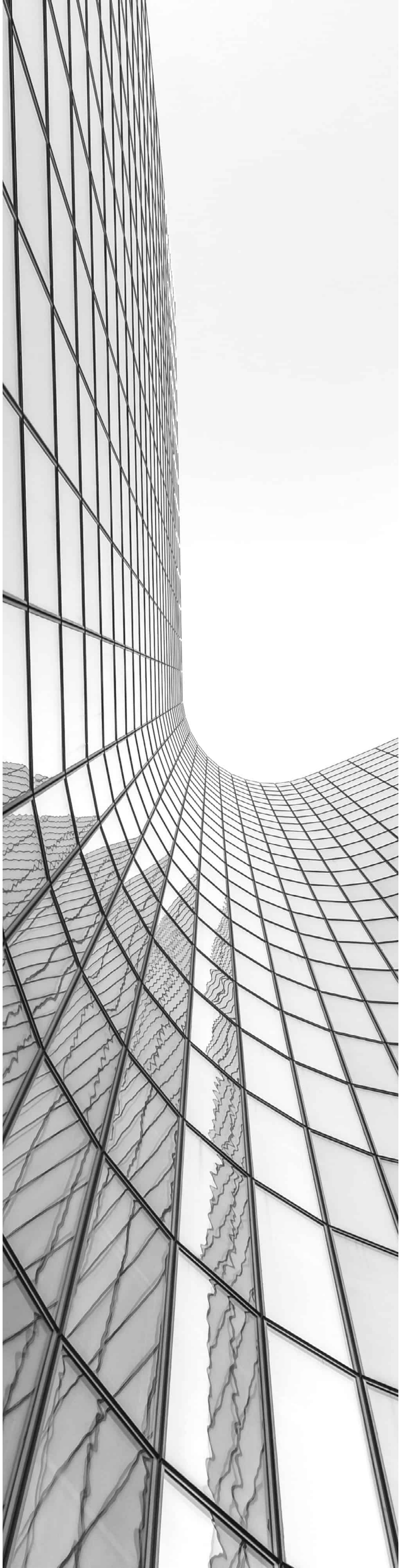


The *Working Families Tax Cuts* legislation created a new custodial investment vehicle for minors known as a **Trump Account**.
Public attention has largely centered on the $1,000 federal seed contribution for newborns. However, many of the operational mechanics, including custodial procedures, approved investments, and compliance requirements, continue to be clarified through U.S. Treasury releases, preliminary IRS guidance, Form 4547 instructions, and materials published on **trumpaccounts.gov**.

This summary reflects what is currently known based on available IRS and Treasury guidance.

WHAT IS A TRUMP ACCOUNT?

A Trump Account is a tax-deferred custodial investment account established for a minor. While it shares certain structural similarities with a traditional IRA, it operates under a distinct set of eligibility, contribution, investment, and distribution rules.

WHO IS ELIGIBLE?

A child is eligible if:

- The child has **not attained the age of 18** before the end of the calendar year in which the election is made
- The child has a valid **Social Security number**

Additional rules:

- Only one **Trump Account** may be established per child
- The account must be opened by an **authorized individual**, generally a parent or legal guardian

WHO QUALIFIES FOR THE $1,000 FEDERAL PILOT CONTRIBUTION?

Children born between **January 1, 2025**, and **December 31, 2028**, may receive a one-time $1,000 federal “pilot” contribution, provided:

- The child meets the eligibility requirements above and is a U.S. citizen.

This contribution does not count toward annual contribution limits.

WHO CAN CONTRIBUTE?

Federal Government

- One-time $1,000 pilot contribution for qualifying newborns (2025–2028)

States, Governments, and Charitable Organizations

- “Qualified general contributions” may be made by:
    - States or political subdivisions
    - The United States
    - The District of Columbia
    - Indian tribal governments
    - Section 501(c)(3) organizations
- Contributions must be made to a **qualified class** (i.e., all children in a certain year or geographic region.
- These contributions do not count toward the $5,000 annual limit.

Employers

- May contribute up to **$2,500 per employee per year** (not per child)
- Contributions are:
    - Deductible to the employer
    - Excluded from the employee’s taxable income
- Indexed for inflation after 2027

Qualified Rollover Contributions

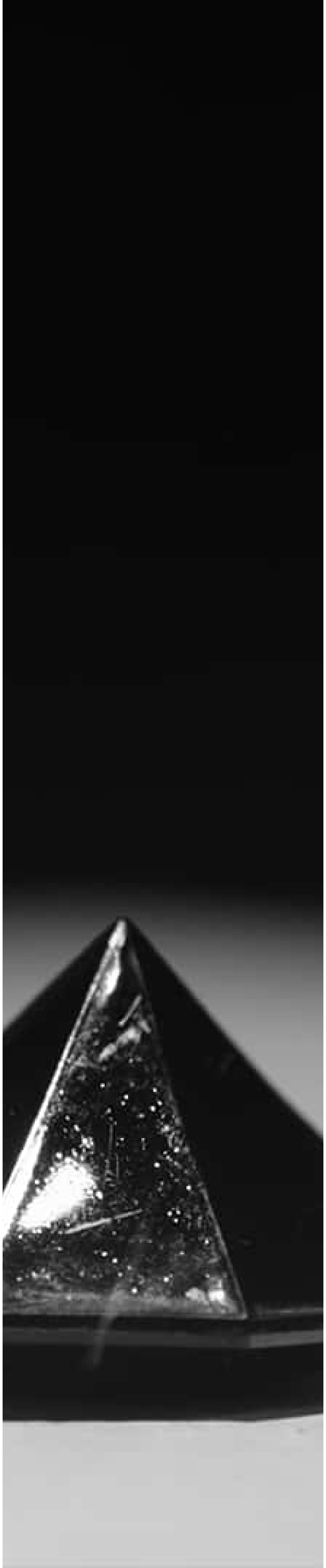
- Trustee-to-trustee transfer from a Trump account to another Trump account for that beneficiary

Family and Friends Contributions

- The account beneficiary, parents, or any other person may contribute, subject to annual limits

Annual Contribution Limit

- Combined employer and family contributions may not exceed **$5,000 per year per account**
- This limit does not include:
    - The $1,000 federal pilot contribution
    - Qualified general contributions
    - Qualified rollover contributions
- Indexed for inflation after 2027
- Contributions may not be made before **July 4, 2026**



INVESTMENT RESTRICTIONS

Unlike 529 plans or custodial brokerage accounts, Trump Accounts are restricted to:

- A **low-cost, broadly diversified U.S. stock index fund or ETF**
- Expense ratio capped at 0.10%

Based on preliminary guidance, alternative asset classes, international exposure, private investments, or customized allocations are not expected to be permissible currently.

WHERE ARE ACCOUNTS HELD?

Initial accounts will be established with Treasury's designated financial agent.

Treasury materials indicate that after initial establishment, parents may complete a trustee-to-trustee transfer to another eligible brokerage firm.

WITHDRAWAL RULES & TAX TREATMENT

Before Age 18

No withdrawals are allowed before January 1 of the calendar year in which the child turns 18. Unless:

- Qualified rollover contributions
- Qualified ABLE rollover contributions
- Distributions of excess contributions
- and distributions upon the death of the account beneficiary.

January 1 of the Year Child Turns Age 18 and Later

Beginning January 1st of the year a child turns 18, a Trump Account is generally treated as a traditional IRA, subject to most of the same contribution and withdrawal rules:

- Funds may remain invested or be withdrawn
- Withdrawals are generally subject to **ordinary income tax**, except for amounts attributable to nondeductible contributions
- A **10% early withdrawal penalty** may apply to non-qualified withdrawals before age 59½

Preliminary materials indicate penalty exceptions may include:

- Qualified higher education expenses
- First-time home purchase (up to $10,000 lifetime limit)
- Other traditional IRA exceptions (disability, certain medical expenses, etc.)

Current guidance does **not** indicate that business formation qualifies as a penalty-free distribution.

ROTH CONVERSIONS: UNLOCKING A GENERATIONAL WEALTH OPPORTUNITY

Unlike a traditional Roth IRA, which requires the child to have earned income to contribute, a Trump Account allows funding regardless of earned income, making it possible to start building a tax-free nest egg from day one.

Beginning January 1st of the year a child turns 18, a Trump Account is generally treated as a traditional IRA. This step not only allows the account to transition from a tax-deferred structure into a tax-free Roth IRA but also dramatically expands investment options.

The Roth conversion is the pivotal moment in the strategy. With careful timing, especially during years when the child has little or no taxable income, conversions can often be executed at little or no federal tax cost. This transforms early contributions into a tax-free compounding engine that can grow for decades, creating a long-term pool of capital that can significantly enhance financial flexibility.

Maximizing the Conversion Window

The years just after age 18 are often the ideal time to convert a Trump Account to a Roth IRA. At this stage, the child may have little or no income, allowing conversions to fit under the standard deduction threshold, potentially resulting in zero federal tax on the taxable portion. For larger account balances, spreading the conversion over multiple years can keep the child in low or no-tax brackets while gradually moving all assets into the Roth.

A key consideration with timing of conversion is the Kiddie Tax, which applies to unearned income for children under 19, and full-time students under 24 who do not provide more than half of their own support. Roth conversions are treated as the child's income, so parents may choose to pay the resulting tax as a gift to preserve the full growth potential inside the Roth IRA. Another advantage: Trump Accounts are treated separately from other IRAs for conversion purposes, meaning outside balances do not dilute the tax benefits.

Once inside the Roth IRA, the long-term impact becomes clear. Assets grow tax-free, and qualified distributions after age 59 1/2 may be withdraw tax-free. When executed thoughtfully, this strategy is not just about reducing taxes today, it is about creating decades of tax-free compounding and significantly expanding future financial flexibility.

Example: Turning $170,000 into a Multi-Million Dollar Roth IRA

Imagine contributing $5,000 annually from birth until age 18. By age 18, the child's Trump Account grows to $170,000 and is fully converted to a Roth IRA. From there, it remains invested, with no further contributions.

- Starting Balance at Age 18: $170,000
- Annual Return: 7%
- Investment Horizon: 41 years (age 18- age 59½)
- Additional Contributions: $0

By age 59½, the initial $170,000 balance has grown to over $2.81 Million, entirely tax-free. This example highlights the extraordinary power of early Roth conversions and long-term compounding, turning a relatively modest contribution into a substantial pool of tax-free wealth for your child.

STRATEGIC CONSIDERATIONS FOR HIGH NET WORTH FAMILIES

A Complement — Not a Complete Replacement

Trump Accounts should generally be viewed as a supplement to, not a substitute for:

- 529 education savings plans
- Custodial accounts such as UTMAs or UGMAs
- Intentionally defective grantor trusts
- SLATs or other dynasty trust structures
- Roth IRAs (available for children who have earned income)

With annual contributions capped at $5,000, Trump Accounts are just one piece of the puzzle. Larger generational wealth transfer strategies rely on additional tools and planning to maximize impact.

HOW TO OPEN AN ACCOUNT?

Based on information currently available on trumpaccounts.gov, parents or legal guardians can open a Trump Account by completing IRS Form 4547 when filing their 2025 federal income tax return, or by using the "Get Started" link on the website for the 2026 tax year. The site indicates that, upon submission, the information provided will be transmitted to the IRS and used to prepare and file Form 4547 to establish a Trump Account for the designated child(ren). The applicant would then be contacted by a trustee or financial institution with further instructions to finalize the account setup.

BOTTOM LINE

Trump Accounts are designed to serve as tax-deferred custodial investment accounts for minors, featuring a one-time $1,000 federal seed contribution for children born between 2025 and 2028, creating an early opportunity to jumpstart long-term wealth accumulation. While the concept is compelling and straightforward, key operational and regulatory details are still taking shape. We will continue to monitor Treasury and IRS guidance as it evolves, and there is a meaningful opportunity to thoughtfully integrate these accounts into broader education, gifting, and estate planning strategies.

SOURCES

IR-2025-117, Dec. 2, 2025

Notice 2025-68

Trumpaccounts.gov

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