



SilverOak

WEALTH MANAGEMENT LLC

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Understanding Trump Accounts: A New Savings Opportunity for Children

Recent tax legislation created a new type of savings account for children commonly referred to as a Trump Account (technically a Section 530A account). While the name has generated some attention, it is important to evaluate this account on its planning merit rather than its name.

Although Trump Accounts can be a valuable addition to a family's financial plan, they should be viewed as complementary to, rather than a replacement for 529 college savings plans and Roth IRAs.

How Did Trump Accounts Come About?

Trump Accounts were created as part of the tax legislation enacted in 2025 to encourage long-term investing for children. The legislation established a pilot program that provides a \$1,000 government contribution for eligible children born between January 1, 2025 and December 31, 2028, subject to certain eligibility requirements.

Parents, grandparents, and others may also make annual contributions, subject to the applicable contribution limits established by law. Currently, contributions are generally limited to \$5,000 per child per year, but will be indexed to inflation annually, starting in 2028.

Who is an Eligible Child?

A child must meet the following requirements to be eligible for a Trump Account:

- Be a U.S. citizen at birth and have a valid Social Security number.
- Be under the age of 18, at the end of the year, the account is established.
- Have the account established by a parent or legal guardian.

Children born between January 1, 2025 and December 31, 2028 are also eligible to receive the one-time \$1,000 government contribution, assuming all applicable requirements are satisfied.

Children born outside this four-year window may still have a Trump Account established and receive contributions from parents, grandparents, and others. However, under current law, they are not eligible for the initial \$1,000 government contribution unless Congress extends or modifies the program.

How Do Trump Accounts Work?

Trump Accounts are designed to encourage long-term investing and wealth accumulation beginning at an early age.

Some of their primary features include:

- Eligible children born during the pilot period may receive the initial \$1,000 government contribution.
- Parents, grandparents, and others may contribute to the \$5,000 annual contribution limit.
- Employers may also be permitted to make contributions in certain situations.
- Assets must be invested in diversified, low-cost U.S. equity index funds.
- Investment earnings accumulate on a tax-deferred basis.
- Contributions are made with after-tax dollars and are not tax-deductible.
- The account is intended for long-term savings and eventually converts into a retirement-style account once the child reaches adulthood. Withdrawals of earnings are taxable and may be subject to additional taxes if the applicable requirements are not satisfied.

Advantages

Trump Accounts offer several attractive planning opportunities:

- Eligible children may receive a free \$1,000 government contribution.
- Beginning to invest shortly after birth provides decades of potential tax-deferred compound growth.
- Parents, grandparents, and other family members can make annual gifts to help build long-term wealth.
- Employer contributions may also be permitted in certain situations.
- Investment earnings, including interest, dividends, and capital gains, grow on a tax-deferred basis while assets remain in the account.
- The portion of a withdrawal that represents your contributions is received tax-free.
- State income tax treatment may differ from the federal rules.
- The account is not limited solely to education expenses and may provide greater long-term flexibility than a 529 plan.
- The required investment in broadly diversified U.S. equity index funds encourages disciplined, low-cost investing.
- Upon turning age 18, the account may be converted into a Roth IRA.

Potential Drawbacks

Like any planning strategy, Trump Accounts also have limitations. Some of the more significant considerations include:

- Annual contribution limits are relatively modest.
- Investment options are intentionally limited.

- Withdrawals do not receive the same favorable tax treatment as qualified withdrawals from a 529 plan.
- Although earnings grow tax-free, the earnings portion of a withdrawal is taxable as ordinary income, rather than at the more favorable long-term capital gains tax rates.
- Depending on the account owner's age and the reason for the distribution, a 10% early withdrawal penalty may also apply, although several exceptions similar to those for traditional IRAs are available.
- Funds are intended for long-term savings and are not designed for early access.
- Once the child reaches adulthood, the account becomes the child's asset, and he or she ultimately controls how the funds are used.

How Do Trump Accounts Compare with 529 Plans?

For families whose primary goal is saving for college, 529 plans remain the superior planning vehicle. Advantages of a 529 plan include:

- Tax-free growth and tax-free withdrawals when used for qualified education expenses.
- Significantly higher lifetime contribution limits.
- Greater investment flexibility.
- Potential state income tax deductions or credits, depending upon your state of residence.
- Greater flexibility to change beneficiaries if one child does not use the funds.

Additionally, recent legislation allowing certain unused 529 plan assets to be rolled into a Roth IRA, subject to various limitations, has made 529 plans even more attractive for many families.

How Do Trump Accounts Compare with Roth IRAs?

A Roth IRA remains one of the most powerful wealth-building tools available.

Roth IRAs require earned income to fund, making them unavailable to most young children. However, if a child has earned enough income, annual contribution limits are higher for a Roth IRA.

Once a child begins working, parents should evaluate whether maximizing Roth IRA contributions should take priority over making additional contributions elsewhere. The Roth IRA provides a combination of tax-free growth and tax-free qualified withdrawals. Trump accounts provide tax-deferred growth, but only the non-deductible contribution portion of withdrawals will be tax-free.

Although not recommended, original contributions to Roth IRAs can be distributed tax-free prior to 18. Distributions from Trump accounts are generally prohibited prior to the child turning 18.

How Do You Open a Trump Account?

Opening a Trump Account is expected to be a relatively straightforward process. The federal government has established an enrollment process, and participating financial institutions will administer the investment accounts.

While individual custodians may have slightly different procedures, the process will involve the following steps:

- **Step 1: Confirm Eligibility**

Verify that the child meets the eligibility requirements, including having a valid Social Security number and being under age 18. Children born between January 1, 2025 and December 31, 2028 may also qualify for the one-time \$1,000 government contribution.

- **Step 2: Complete the Required Election**

A parent or legal guardian completes the required election through the government's enrollment process. This may be completed online (<https://trumpaccounts.gov/>) or by submitting IRS Form 4547.

- **Step 3: Activate the Account**

After the election has been processed, the parent or legal guardian receives instructions to activate the account and complete any required identity verification. Once activated, the account is established in the child's name.

- **Step 4: Select the Investment**

Unlike a traditional brokerage account, investment choices are intentionally limited. Assets must be invested in diversified, low-cost U.S. equity index mutual funds or exchange traded funds that satisfy the requirements established by law. This limitation is intended to encourage broad diversification while minimizing investment costs.

- **Step 5: Begin Funding the Account**

If the child qualifies, the government's \$1,000 contribution will be deposited into the account. Parents, grandparents, other family members, employers, and, in certain situations, charitable organizations may also make contributions, subject to the applicable annual contribution limits.

As with any investment account, we recommend maintaining copies of the account opening documents and records of all contributions. Good recordkeeping can simplify future tax reporting and help ensure annual contribution limits are not exceeded.

SilverOak's Perspective

We believe Trump Accounts are a worthwhile planning tool for many families, particularly those with children who qualify for the initial \$1,000 government contribution. It is difficult to argue against accepting a government-funded investment with the potential to compound over many decades.

However, we do not view Trump Accounts as a replacement for either a 529 plan or a Roth IRA.

Instead, we believe they should be viewed as another tool in the planning toolbox. Depending upon your family's goals, the optimal strategy may involve using all three:

- 529 Plan to fund future education expenses.
- Trump Account to establish long-term savings beginning in childhood.
- Roth IRA once the child has earned income and becomes eligible to contribute.

Each account serves a different purpose and offers unique tax advantages. When coordinated properly, they can work together to help provide children and grandchildren with an excellent financial foundation.

As always, every family's circumstances are unique. If you would like to discuss whether a Trump Account may be appropriate for your children or grandchildren, please contact our office. We would be happy to help determine how this new planning opportunity fits within your overall financial plan.

Disclaimer:

Information and analysis provided in this white paper are for general and educational purposes only. Any opinions expressed in this summary are not intended to be accounting, legal, tax or investment advice.

Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.

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