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Trust UPDATE

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Q&A on Trump Accounts

Over the years, a variety of tax-preferred savings accounts have been added to the Internal Revenue Code—such as IRAs, Roth IRAs, Coverdell ESAs, 529 plans, and Health Savings Accounts. Added to this list now is the Trump Account, created last year by the One Big Beautiful Bill Act of 2025. Contributions to Trump Accounts may begin July 4, 2026.

What is a Trump Account?

A Trump Account is a special type of IRA for minor children. Unlike other IRAs, the child does not need to have income for contributions to be made to the account. Income taxes on the earnings in the account are deferred until withdrawals are made.

Who is eligible to have a Trump Account?

Any U.S. citizen under age 18 with a valid Social Security number is eligible to have an account. The account is owned by the child but is managed by a parent or guardian during the "growth period," which continues until the child is 18.

How is a Trump Account created?

Form 4547 is filed with the IRS. Go to trumpaccounts.gov to get started.

How much may be contributed to a Trump Account?

In general, private contributions are capped at $5,000 per year, per child. The limit will be adjusted for inflation starting in 2028.

Is there a deduction for contributions?

There are no deductions for direct contributions from family members to a Trump Account. As with a Roth IRA, these contributions are of "after-tax" dollars, and so they create a tax basis in the account.

What about the federal "seed contribution"?

Children born between January 1, 2025, and December 31, 2028, are eligible for a $1,000 one-time payment into their Trump Account from the federal government. This payment does not count toward the $5,000 contribution cap.

Savings account alternatives for kids

	PRO	CON
529 plans	No income test for donor; high limits on contributions; no tax on withdrawals for education	Tax penalties if money is not used for education
Coverdell Education Savings Account	No tax on withdrawals for education; unlimited investment flexibility	Income limit on donor; low contribution limits
UGMA or UTMA accounts	No contribution limits or income tests for donor	Account must become the property of the child when reaching the age of majority; potential federal gift tax on large contributions
Discretionary trust	No limits on contributions; trust distributions may be as restrictive or as easy as the grantor desires	Potential federal gift taxes on large trusts; trust income is taxed more severely than individual income

Source: M.A. Co.

Trump Accounts . . . *continued*

What are the investment choices?

During the growth period until the child becomes 18, the Trump Account must be invested in a mutual fund or ETF that tracks a qualified index, such as the S&P 500. The account may not use leverage to boost returns, and the annual expense ratio may not exceed 0.1%. Individual stocks may not be held by the Trump Account during the growth period.

How much might be accumulated?

Many assumptions go into projecting the growth of a Trump Account. Start by assuming that an account for a child born in 2026 receives the $1,000 federal seed money and $5,000 per year from parents or grandparents. That comes to an investment of $86,000 over the years until the child turns 18. However, if we assume an inflation adjustment of 3% per year to the contribution limit after 2028, the maximum contribution would come to $116,300. Next, assume that the account grows at a steady 8% per year. When the child turns 18, the account will be worth $250,069.

Now, assume that the child does not touch the money, and it continues to grow at 8% per year. At age 59½, when penalty-free withdrawals are allowed, the account will have grown to $6,336,611. Over 98% of withdrawals will then be taxed as ordinary income. The earlier one starts saving for retirement and the longer the period of compounding, the more successful one can be.

Are there other wrinkles to consider?

To mitigate the impact of income taxes on Trump Account withdrawals, after reaching age 18, the child might consider converting the account to a Roth IRA. If the child is in a low tax bracket, the tax cost of the conversion may be rather nominal, especially if the child waits until age 24 to avoid the "kiddie tax." The conversion may be spaced over a period of years to avoid the higher tax brackets.

When are withdrawals allowed from a Trump Account?

In general, no withdrawals are permitted before the child reaches age 18. At that point, the Trump Account becomes a regular IRA, subject to the usual IRA rules.

How will withdrawals be taxed?

Earnings withdrawn from the Trump Account will be taxed as ordinary income; the after-tax contributions come out tax-free. Withdrawals made before age 59½ may be subject to penalty taxes, except to the extent permitted for traditional IRAs (such as higher education expenses or up to $10,000 for the purchase of a first home).

How many people have signed up for a Trump Account so far?

On March 31, 2026, the IRS announced that over 4 million children had been signed up for Trump Accounts as of that date, with over 1 million eligible for the federal $1,000 contribution.

Can one contribute an appreciated asset to a Trump Account?

The law is ambiguous on this point. There have reportedly been discussions of allowing contributions of, for example, appreciated shares of stock to a Trump Account. This would avoid tax on the capital gain. However, that tax benefit would seem to be much less important than the long period of tax-deferred account growth.

How will states tax the Trump Accounts?

This point is unsettled. For the 20 states that match federal tax rules, and the nine states that have no income tax, there should be no problem. According to a post at Ed Slott and Company [https://irahelp.com/how-will-states-tax-trump-account-contributions/], seven states have already stated that they won't treat Trump Accounts as IRAs. That means no deferral of state income taxes on the account's annual investment earnings. The seven states are California, Hawaii, Kentucky, Massachusetts, Pennsylvania, South Carolina and Wisconsin. Three states will take up the question in the future.

Is contributing to a Trump Account a wise financial planning idea?

Saving is always wise. It puts time and compounding returns on the side of the saver. Some analysts have argued that a custodial Uniform Gifts to Minors Act account will provide superior after-tax wealth accumulation for the same level of contributions by the parents. There are no caps on contributions and greater flexibility in using the money without a tax penalty in the future. All of that may be true.

On the other hand, why turn down the free $1,000 from the federal government for getting started? The annual $5,000 contribution cap serves as a reminder to donors to make their contribution each year, reinforcing the savings habit. Early indications are that the Trump Accounts will be popular.

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Incentive trusts

An inheritance in trust will be a long-term financial resource, not a short-term windfall. Key trust advantages include professional asset management and protection from creditors. In some cases, when the beneficiary will be a minor, the grantor might consider adding specific incentives to the trust.

Behavior to encourage. Education, which may be broadly defined to not only include college but also private secondary education, post-graduate education, professional schools and other types of schooling, including vocational schools. Service to society, such as pursuing a career as a teacher, social worker, college professor, or artist. Stewardship, which involves building and preserving the trust assets for future generations. Philanthropy, which can be accomplished through private foundations, charitable trusts and donor-advised funds.

Behavior to discourage. Consumption, which may involve postponing the time when the beneficiary is entitled to assets outright. Sloth, which is related to consumption but is more focused on preventing a beneficiary from abstaining from any productive activity. Self-destructive behavior, such as drug abuse, alcohol abuse, or criminal behavior. Charity, which may seem contradictory to the statement above concerning encouraging philanthropy, but in this context, it usually means discouraging the beneficiary from contributing to charities that are not favored by the parents or grandparents, such as a religious cult.

Typical Provisions

Encouraging specific behavior. An incentive trust may provide that a beneficiary is entitled to an annual distribution equal to the amount the beneficiary earns each year, as shown by a W-2 form or other evidence, perhaps up to a certain dollar amount, such as $100,000 or $200,000. The beneficiary may be entitled to distributions only if gainfully employed, or only if he or she maintains a certain grade point average in college. Distributions may be made upon certain events, such as graduation from college. The beneficiary may be entitled to a distribution to enable him or her to open a professional practice or to establish a business. A female beneficiary who is married and has minor children may be entitled to periodic distributions, such as $10,000 per month, if she refrains from active employment.

Discouraging certain behavior. Distributions may be withheld from a beneficiary who refuses to receive periodic drug tests, who is abusing alcohol or drugs, or who refuses to enter into a premarital agreement before marriage. Distributions may be withheld from a beneficiary who has moving traffic violations during a particular year.

But do incentive trusts really work?

Incentive trust provisions can generally be designed as bright-line tests so that a trustee knows exactly when a beneficiary is entitled to a distribution, and the beneficiary knows exactly when he or she is entitled to distributions from the trust. It eliminates the beneficiary having to persuade the trustee to make distributions, which can result in a feeling of lack of control. On the other hand, money incentives have generally been determined by researchers not to be effective in encouraging the desired behavior—and in many cases, they reward behavior the beneficiary was likely to engage in anyway.

As circumstances change, the incentive provisions may no longer operate to achieve a desirable result. Incentives may work unfairly if not properly drafted or coupled with discretionary distribution provisions. For example, distributions based on how much a beneficiary earns may discourage a beneficiary from pursuing certain careers, such as teaching school. In addition, such a provision may disinherit a beneficiary who becomes physically or mentally incapable of being gainfully employed.

Trust-based wealth management can be a powerful tool, as trusts can be designed to be as flexible or as restrictive as may be appropriate for each family's circumstances. See your estate planning professional to learn more, or come see us at your convenience.

The $8 billion inheritance tax, paid in full

Samsung is Korea's largest family-owned business. When its chairman, Lee Kun-hee, died in October 2020, he left an estate worth $17.5 billion, including an art collection, property, and shares in Samsung. Korea's inheritance tax rate is 50% (the U.S. top federal estate tax rate is 40%), so the tax bill came to $8 billion. The family was permitted to pay the extraordinary tax in six installments over five years.

The art collection, which included works by Picasso and Salvador Dali, was donated to the National Museum of Korea. Investors were concerned that meeting the tax burden might cause the family to lose their control over Samsung.

The fears were evidently unfounded, as the inheritance tax bill has been confirmed to be fully paid. The Lee family has an estimated net worth of $45 billion, which has grown along with Samsung's share price.

End of the earnings test?

Social Security benefits were designed to replace income during retirement. To test whether the recipient was actually retired, there was an earnings test. If wage income rose above a specified level, the benefits would be reduced. Note that it was not an income test but an earnings test. The beneficiary could have unlimited investment income without affecting benefits.

In 2000, the earnings test was partially eliminated by the Senior Citizens' Freedom to Work Act of 2000, signed by President Clinton in April of that year. The new rule was that once someone reached their full retirement age, the earnings test would be dropped. Full retirement age depends upon the year of birth, but it is now generally 66 or 67. However, the earnings test was retained for anyone who claimed their benefits early, typically at age 62.

Now, a bill has been introduced to eliminate the earnings test entirely. The Senior Citizens' Freedom to Work Act of 2026 has been introduced by Senator Rick Scott and Representative Greg Murphy. The outlook for the legislation is uncertain, given the fragility of the Social Security trust funds. But "American seniors' ability to earn income and enjoy the dignity of work should not be penalized by arbitrary parameters to receive Social Security benefits," Murphy said.

According to a report by Realtor.com, the share of seniors participating in the workforce has grown steadily since 2014. Rising costs for property taxes, utilities, and insurance have made remaining in one's home during retirement more difficult and more unpredictable, which may account for the greater employment of seniors. Supporters of the repeal argue that the final elimination of the earnings test will ease this pressure and give seniors greater financial flexibility.

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