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Episode - Trump accounts: Rising interest, evolving rules

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views, and today we're going to be talking about the newly established tax-advantaged Trump accounts which, came into being as part of the 2025 tax reconciliation bill and we're going to talk about, some considerations for individuals wishing to participate in those accounts, as well as organizations that would like to offer these accounts to their employees, what some of those considerations are. Joining me today are two of my Deloitte colleagues, Michael Haberman from Deloitte's Global Employer Services Practice, and Mark Roman, who recently joined Deloitte's Tax Policy Group. After a career on the Hill, most recently serving as the Staff Director of the U.S. House Committee on Ways and Means. So, Mark, welcome to Deloitte, and welcome both of you to this Tax News and Views podcast and Michael, I'll start with you. Before we fully dive in, maybe just give our listeners an overview of what a Trump account or a Section 530A account actually is. What it's used for, and why they should care about them.

Michael Haberman: Yeah, thanks, Carrie. Sure, Trump accounts are a new form of pre-tax IRA that can be open for beneficiaries under the age of 18, and, you know, it presents another opportunity for parents, relatives, or even family friends to make contributions for a child with the hopes of generating tax-deferred savings for that child. Additionally, if elected, the federal government will make a one-time contribution of $1,000 in seed money to the Trump account of an account beneficiary born between 2025-2028. So, the accounts present another way to help children save for the future, and unlike Section 529 plans, permitted distributions aren't limited to education expenses. In the year in which the child becomes 18, their so-called growth period is over, and distributions can be taken on a penalty-free basis for expenses like higher education, but also for things like first home purchases, or personal emergency expenses, or costs associated with the birth or adoption of a child. Now, generally, if a person's making a Trump account contribution on behalf of a minor, that's not tax deductible, but employers may allow employees to make a pre-tax contribution to a minor's Trump account as part of a formal Trump account contribution program.

Carrie Falkenhayn: Interesting. Okay, Mark, let's bring you in. Can you tell us a bit about the creation of these accounts by Congress, and then last year's tax bill? What was some of the reasoning behind creating them, and what was Congress hoping to accomplish, around this idea?

Mark Roman: Yeah, definitely, and thank you for that introduction, Carrie. You know, this is kind of, you know, something that members of Congress kind of candidly, on both sides of the aisle, have been interested in for a while, and figuring out, sort of, seeding these savings accounts to help kids succeed, be tied to the economy. So, it's an idea that's been out there, and sort of the terminology that folks may be familiar with is we've heard it called, baby bonds in the past. So there's always kind of been, you know, an interest in doing it, but it's always been a bit, cost prohibitive, if you will, of figuring out how to design it, that isn't super expensive. But look, I think, you know, lawmakers were, recognizing that childcare costs have doubled the pace of inflation over the last 20 years, and they wanted to do something in the reconciliation bill in 2025 to encourage family growth and not let the cost of raising a child be prohibitive to start a family, or creating savings for that child. So, I think there was a bit of a conversation of, should this be done through maybe changes to the child tax credit, of do you do an additional sort of bonus piece for children between the age of 0 and 3? Or do you do it this way, ultimately, through the Trump account version? And I think, ultimately, policymakers chose this route. With the idea that it would allow the child, as they enter adulthood, to be vested in the success of the American economy, and help give that child a bit of a nice nest egg of savings as they start their independent lives, with hopefully now, already a connection to the success of the American economy.

Carrie Falkenhayn: Mark, one of the things that I've found very interesting since the bill was signed into law last year is that there's been a number of individuals, including celebrities and businesses, announcing that they're making, contributions to Trump accounts. So, what exactly are they announcing, and why are they doing this? And what are those who might be thinking about making these contributions seeing that our listeners should be aware of?

Mark Roman: Yeah, that's right, and Kennedy, it's been a bit fun to watch. You know, we're even still a couple months away from the official kickoff of the accounts for contributions, when they'll be open for contributions, and you've already had, more than 50 high-profile individuals and big employers announce substantial investments that they're going to make into Trump accounts on top of the government $1,000 seed money, where they'll be contributing to newborns. You know, we've seen multiple summits that the president has participated in, either over at the White House or over at Treasury where new features of the Trump accounts and announcements of these investments have been rolled out. And to your point, it's included celebrities, it's included high-profile philanthropic individuals announcing investments from their private foundations. And not all of these have been necessarily the same.

For example, some announcements sort of are predicated on first the employee's opening account, others are targeted to specific zip codes. Some employers are doing matching contributions, some are doing more broad-based seed money to employees. But obviously, the White House has been highlighting these investments as they come online and all this is still very new, obviously this was recently created, but the statute does allow donations to Trump accounts, not just from parents, but also from tax-exempt charitable entities, including private foundations, and I don't want to get ahead of Michael, I know he's going to talk more about all the mechanics in a minute, but there is sort of an annual limit at play with these accounts, and government or charitable dollars to Trump accounts, depending on how they're done, don't necessarily count towards that limit. So, you know, Michael's also going to touch on the employer side, but similarly. We've seen employers are offering them as a way to get a new benefit to their employees, and a number of employees are anticipating that their employers may stand up matching or contribution programs, so they're opening accounts as employees as well for their children. So, a lot of things happening with these accounts, but it's been kind of fun to watch.

Carrie Falkenhayn: All right, Michael, it sounds like now is the time to get into some of the details about how these accounts actually work, if you as an individual want to participate for your own children, or say you're an employer who wants to offer this benefit to their employees, what should we know?

Michael Haberman: All right. Well, in either event, employer, employee, everything is starting with an authorized individual filling out an IRS Form 4547, or an online version at trumpaccounts.gov. An authorized individual can be a guardian, a parent, an adult sibling, or a grandparent, though there are some priority rules that apply. The form is very streamlined. They ask for the child's name, some basic information, and if applicable, a request for that $1,000 seed money, sometimes called pilot program money. You know, submitting either version of the form will result in a validation step from the government, and then the government will formally establish the account opening for investment on July 4th of 2026. Now, at least at this time, this is all the same Even if there's a Trump account contribution program, the employer program, because while an employer can look to put in place that Trump account contribution program, they can't actually set up the Trump account for a child once a Trump account contribution program's established, there's gonna have to be some way for an employee to convey the ID number and the financial institution that that account is in. Now, that said, I can foresee a world where employer programs are linked to vendors that do help streamline the process.

Carrie Falkenhayn: Okay, so let's go a little bit deeper on this idea around Trump account contributions programs. So, what are some of the advantages to the employer in setting up a contribution program, and what should they be thinking about if they're going to do this?

Michael Haberman: Well, as Mark discussed, the Trump accounts provide a vehicle for generating savings for children, but as a practical matter, there's only one way for a person to contribute to a Trump account on a pre-tax basis, at least for now, and that is if your employer is offering a Trump account contribution program. The 2025 bill paved the way for an employer to contribute up to $2,500 per year per employee to Trump accounts. And the employer itself can contribute that money directly up to $2,500 a year, you know, think of that like a profit-sharing contribution or a match, or the employer can facilitate salary reduction of up to $2,500. Now, either way, the amount contributed doesn't result in additional income tax to the employee.

Two caveats to be aware of, though. You know, first, the amounts under a Trump account contribution program are still counting towards an overall $5,000 limit on contributions to a Trump account for any year during what's considered to be the child's growth period. And second, this doesn't fully eliminate tax impact. Ultimately, the child is going to have to pay tax on these amounts when it's distributed. But, from an employer perspective. Apart from upfront expenses to structure this properly and an ongoing non-discrimination testing, if you're just putting in place a salary reduction opportunity, your employees may see this as a meaningful benefit that you're providing them for, you know, what's expected to be relatively low additional cost.

Carrie Falkenhayn: Got it. And what are some of the features of these accounts that our listeners should know about when the beneficiary turns 18?

Michael Haberman: Okay, so when that growth period ends, on January 1st of the year, the account beneficiary turns 18, the Trump account becomes for the most part, an ordinary IRA, and that means ongoing contributions become governed by the rules for IRA contributions and deductions, the accounts can be converted to Roth IRAs. Limits on investment types no longer apply, and probably most critically, the beneficiary can finally take distributions. And, distributions are taxed based on the type of contributions that were received. Contributions from an employer program, or contributions from the government. Those won't have been taxed before, so they'll be subject to taxation when distributed.

On the other hand, contributions from individuals like parents won't have been deductible to the adults, so they form basis that'll be proportionately applied against distributions. Now one important thing to bear in mind is that distributions from an IRA prior to what's generally thought of as retirement age can be subject to a 10% additional penalty tax, but the exceptions to that rule are important, and part of the reason Congress structured this as a form of IRA, and not just as an expanded Section 529 plan. There can be withdrawals for education expenses, yes, but also for purchase of a construction of a first home, for the birth or adoption of a child, personal emergency expenses up to $1,000, and other exceptions found in the code in Section 72T. These are exceptions to the penalty tax, and they speak to the idea that this is to help a child start off their life, whatever direction it may go, school or not.

Carrie Falkenhayn: Okay, I know we've started to get some guidance from Treasury, it's just early guidance. What are the big things, or big pieces of guidance that we're still waiting on? And, while these accounts were established in last year's reconciliation bill, when, does all this actually kick off for us?

Michael Haberman: Well Treasury's been working to ensure that the Trump accounts are ready to accept contributions starting on July 4th of 2026, which, you know, sort of a big day for a number of reasons here in the States. Theoretically, Trump account contribution programs could kick off on that day as well. Now, Treasury specifically reserved, at least for now, reserved proposing regulations about contributions, investments, distributions, reporting, and coordination with the IRA rules, but those are sort of day two concerns, and not a lot of those will impact Trump account. Well, rather, they'll impact Trump account trustees more than impacting any authorized individual who just wants to establish a Trump account for a child.

Now, from the employer perspective, there are things that can be done to help pave the way for a Trump account contribution program at this time, but one of the most important things that we want to know from the government is about non-discrimination testing. Now, the statute basically pointed to dependent care assistant program rules that ensure that well, that benefit amounts don't just go to the highest paid employees. And essentially, the statutory language said, do something similar. Well, okay, but employers still need to know a bit more specific about exactly how robust this benefit can be. You know, for example, employers in fields with more highly compensated employees often have to pare back dependent care benefits because of the pertinent tax rules. So leaves it unclear how often that max $2,500 benefit is going to have to be something a little less each year. I expect that we're going to have guidance on this pretty soon, but it's not out as of the date of this recording.

One last word, I guess, for potential donors like grandparents. Just bear in mind that the current guidance doesn't yet address gift tax or generation-skipping transfer tax implications of contributions to Trump accounts. Based on existing gift and GST tax rules, contributions by an individual to Trump accounts would be considered taxable gifts that aren't eligible for the gift or GST tax annual exclusions. But, you know, because all this is so new. Just be sure to consult with your tax advisor before making individual contributions, and this is particularly important if you're somebody who's made large taxable gifts in the past, or may have other uses for the lifetime gift tax and GST exemptions just don't forget, July 4th is when the doors first open, so to speak, but the related opportunities is really just getting started.

Carrie Falkenhayn: Got it. All right, so still lots of questions. Mark, maybe turning back to you, where do things currently stand in terms of enrollment? Have we started to see accounts already be opened? And, you know, as we approach that July 4th kickoff date, where do things stand?

Mark Roman: Yeah, we actually got kind of our first most robust update on where things stand. Most recently, when the IRS CEO testified in front of Congress, and what he said about Trump accounts was that over 5 million Trump accounts have already been opened, you know, and to Michael's point, we're still 2 months plus away from the program officially sort of accepting deposits into accounts. So $5 million is a significant number, and sort of remember, in that $5 million, an account can be open for any child with a valid social security number under the age of 18. It's just those that were born last year, 2025, through the end of 28, that get that sort of initial $1,000 seed money from the government into their account. So, of those 5 million that have been opened. It's $1.2 million are eligible for the $1,000 government contribution program. Like, you have a, you know, of those that are gonna get the $1,000 seed money. So, again, these are important numbers of where things stood, kind of, as of April 15th, and they'll kind of continue to grow from there.

I think there was, you know, a big uptick in enrollments during this year's filing season, coupled with the form that Michael mentioned, the rollout of the form 4547, to make the election, to open an account, and that was kind of rolled out late last year. I suspect, as we get closer and closer to July 4th, you'll hear more about these accounts, more investments, and announcements coming out of the White House, as we approach that sort of official start moment. More employees may begin to anticipate that their employers will start either a matching or a contribution program of their own, so that may drive folks to open more accounts, and may not just be limited to sort of the universe of kids already, that either are just born last year or born this year. So I think we're kind of just getting started, to Michael's point.

Carrie Falkenhayn: Let's talk a little bit more about the $1,000 contribution from the government, right? The way the law is written right now, it will expire at the end of 2028. Mark, what do you think about the future of that, provision, and should our listeners be mindful of that expiration, or because we think the program's gonna go away, or do you think it's here to stay? What do you think might happen as we approach that date?

Mark Roman: Yeah, kind of, you know, as I said at the beginning, this, this sort of this issue has a history of showing support on both sides of the aisle, both Republicans and Democrats. And so, you know, to your point, what expires at the end of 2028 is just that sort of initial government 1,000 contribution for newborns. It's not the entire underlying program. So it's really a question of, will that seed money be extended beyond that, you know, December 31st 2028 moment and I think where we sit right now is it certainly seems possible, if not likely, that will happen. You know, you already have legislation introduced by senior tax writers to extend that $1,000 contribution period beyond its current expiration.

But, you know, all those mechanics that Michael just went through, where there may be things that need tweaks or modifications to further incentivize participation that sort of you have this natural juncture moment coming at the end of 2028, where you need to extend the $1,000 contribution, where all of those things may be under review to make the program run better. So, you know, they could look at things like allowing parents to use pre-tax dollars, make the contributions tax-deductible, changing flexibility rules for the funds when a child turns 18, changing initial seed amounts. You know, that Michael mentioned, or varying, sort of, depending on, you know, you could change the seed amount depending on the economic profile of the family. They could change the annual account limitations or tax treatment at distribution. You could even see states potentially stand up contributions, contribution programs of their own, similar to, like, what we often see with 529s. But I would expect lawmakers to kind of explore all those topics. They'll look to better communicate to taxpayers who have newborns that they're eligible.

For this program they also may consider policies like auto-enrollment for all newborns, instead of having to proactively opt-in, like Michael mentioned. The proactive opt-in piece could be a barrier to some if they don't know that they're eligible for this. So I just think there's going to be a lot of options for policymakers to consider moving forward, and sort of just this natural juncture that's coming when you have that expiration of the seed money that I think will kind of bring everyone to the table to take a look at this. But it's really sort of exciting, and it's really just kind of just getting started here.

Carrie Falkenhayn: Absolutely, Michael, one last question for you. Any closing thoughts or advice you'd give taxpayers thinking about setting up these new accounts?

Michael Haberman: You know, for individuals. As always, you want to talk with your personal tax or financial advisors before making any investment decisions. However, this does reflect something new to consider, particularly if you want broader options for your younger family's members' future, you know, consider this alongside Section 529 opportunities. For employers. Trump account contribution programs represent an opportunity to help your employees save for their children's future. It's a brand new employee benefit that might fit your workforce's needs. It can be a relatively narrow benefit if you just offer a salary reduction, or it can be something potentially more generous, including employer matches. So, you know, something your benefits team may want to consider.

Carrie Falkenhayn: Well, thank you both, so much for your insights today. If our audience would like to learn more, they can reach out to either one of you directly on LinkedIn, I'd encourage that. As always, audience, thank you so much for listening, and I hope you join us next time. Be well, everyone.