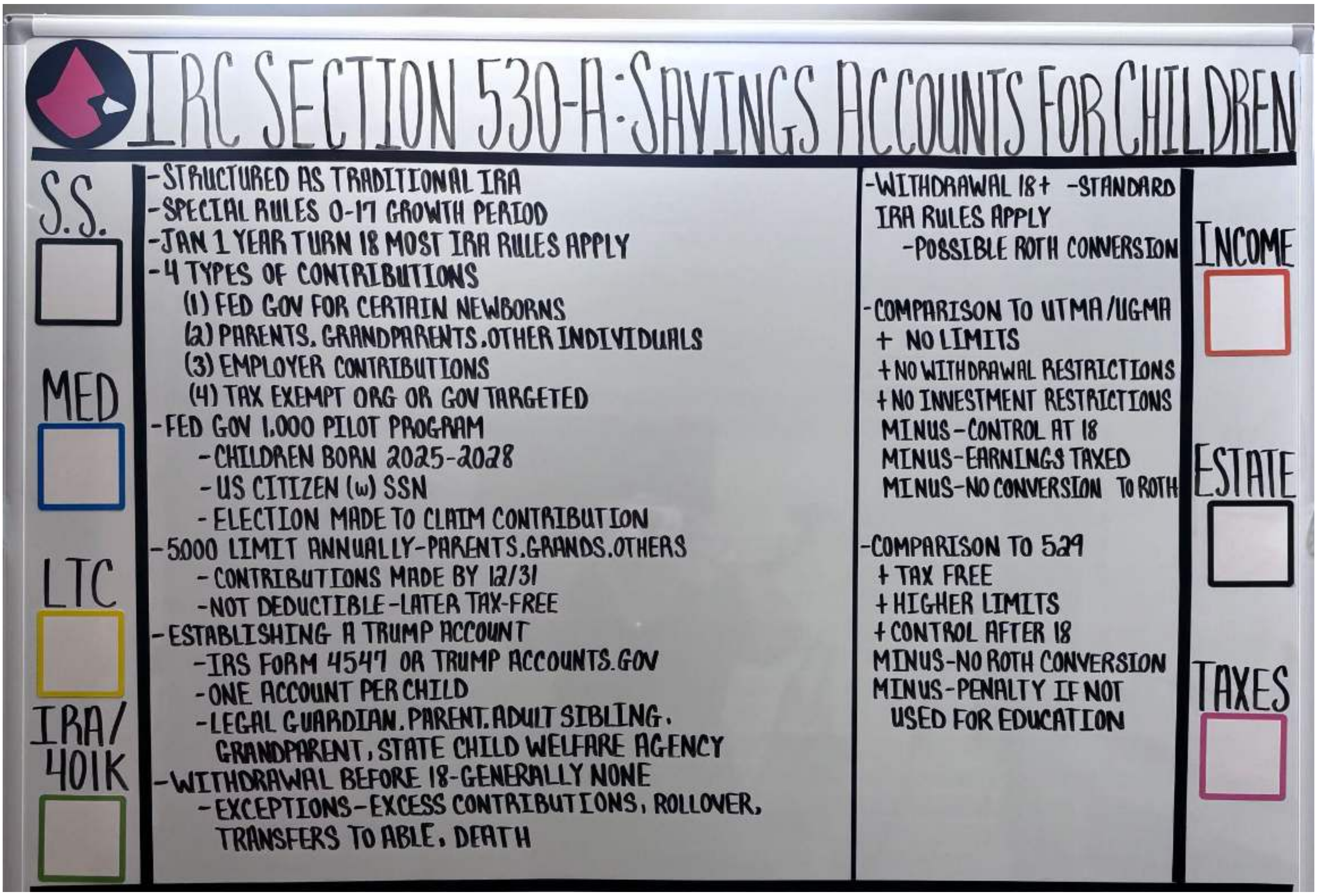
CARDINAL ADVISORS

IRC Section 530-A: Savings Accounts For Children

Learn how the new "Trump Accounts" (IRC Section 530-A) work for saving on behalf of a child, and see how they stack up against UTMA/UGMA accounts and 529 plans.



Sep 2026

IRC Section 530A — Trump Accounts for Children (Tax-Deferred Savings)

1. Overview

- Tax-deferred savings vehicle for children
- Must be structured as a traditional IRA — cannot be a Roth
- Special rules apply during the "growth period" (through Dec. 31 of the year the child turns 17)
- Beginning Jan. 1 of the year the child turns 18, most traditional IRA rules apply

2. Types of Contributions

1. Federal government contribution for certain newborns
2. Contributions by parents, grandparents, or other individuals on the child's behalf
3. Employer contributions — for employees under age 18, or on behalf of employees' children under age 18
4. Contributions by tax-exempt organizations or government entities to a targeted group of children under age 18

3. Federal Government Contribution ($1,000 "Pilot Program")

- One-time contribution of $1,000
- Eligibility:
- Child born between 2025 and 2028
- Must be a U.S. citizen with a Social Security number
- Election must be made to claim the contribution
- OBBBA labels this a "pilot program," suggesting it may later be extended to children born outside 2025–2028
- Contribution is pre-tax and does not affect the account holder's ability to make other contributions

4. Contributions by Parents, Grandparents, and Other Individuals

- Combined annual limit during the growth period: $5,000 (indexed for inflation starting 2028)
- Employer contributions count toward this $5,000 limit
- Government ($1,000 seed) and tax-exempt organization contributions do not count toward this limit
- Contributions allowed even for children who don't qualify for the $1,000 federal contribution (born before 2025 or after 2028)
- Deadline: contributions must be made by December 31; prior-year contributions are not permitted

8. Establishing a Trump Account

- Only one account permitted per child
- Established via election on:
- IRS Form 4547, or
- www.trumpaccounts.gov
- Priority order of who may make the election:

1. Legal guardian
2. Parent
3. Adult sibling

4. Grandparent
5. State child welfare agency (for foster children)

Caution for Grandparents: By making the election, the individual must certify under penalty of perjury that no person with higher priority is available to make the election.

Claiming the $1,000 Federal Contribution

- Must opt in — not automatic
- Election made by the individual who anticipates claiming the child as a dependent
- Filed via Form 4547 or www.trumpaccounts.gov
- Planning note: If eligible, take the free government money

11. Withdrawal Rules

During the Growth Period (Before Age-18 Year)

- Generally, no withdrawals permitted
- Exceptions:
- Excess contributions
- Rollover contributions
- Transfers to ABLE accounts
- Death distributions (FMV minus basis is taxable to the beneficiary)

After the Growth Period (On or After Age-18 Year)

- Standard traditional IRA rules apply; account becomes the child's traditional IRA
- Options:
- Withdrawal (subject to tax and penalty)
- Rollover/transfer (no tax or penalty)
- Roth conversion (taxable, no penalty)
- Retain as a retirement account (subject to RMDs)

Roth Conversion Option

- May produce a substantial Roth IRA starting balance
- Starts the five-year clock
- Partially taxable, but not subject to penalty
- Kiddie tax considerations:
- Applies at age 18 (unless financially independent)
- Applies at ages 19–23 if a full-time student (unless financially independent)
- Never applies at age 24+
- Child taxed at parent's marginal rate on unearned income above $2,700 (2026)
- First $1,350 of unearned income tax-free; next $1,350 taxed at the child's rate

13. Annual Contribution Limits vs. IRA Limits

During the Growth Period

- Trump account contributions do not count toward the annual IRA contribution limit
- Planning opportunity: once a child has taxable earnings, contributions can be "doubled up":
- Trump account contribution: up to $5,000, plus

- Traditional/Roth IRA contribution: up to the annual limit (or taxable earnings, if less)

On or After Age-18 Year

- Trump account contributions do count toward the annual IRA limit
- Combined Trump account + traditional/Roth IRA contributions cannot exceed the annual limit (or taxable earnings, if less)
- No more “doubling up”

14. Contribution Deductibility

- Contributions by parents, grandparents, or others during the growth period must be after-tax (non-deductible)
- Contributions made beginning in the age-18 year follow standard traditional IRA deductibility rules (subject to workplace plan participation and MAGI phase-outs)

15. Transition to Standard IRA Rules

- After the growth period, most Trump account–specific rules cease to apply; standard traditional IRA rules generally take over
- Per Notice 2025-68, the account remains a “Trump account” by designation even after the growth period
- Post–growth period, Trump accounts:
- Cannot receive contributions from a SEP or SIMPLE IRA plan
- Cannot be aggregated with other IRAs for purposes of the pro-rata basis allocation rule

16. Taxation of Distributions

Fully Taxable:

- $1,000 federal government contribution
- Employer contributions (for teenage employees or employees’ dependents)
- Contributions by tax-exempt organizations or government entities
- Any earnings

Not Taxable (Basis):

- Contributions made by parents, grandparents, or other individuals

Pro-Rata Rule:

- Applies to distributions unless the account holds only individual (basis) contributions with no earnings
- Non-Trump-account IRA funds are ignored when applying the pro-rata rule to Trump account distributions

State Tax Treatment:

- Federal tax deferral does not guarantee state conformity
- States currently planning to tax contributions/earnings: California, Hawaii, Kentucky, Massachusetts, Pennsylvania, South Carolina, Wisconsin
- Other states have not yet addressed the issue
- Planning note: Monitor state-level treatment, as non-conforming states add another planning factor

18. Comparison to Other Savings Vehicles

vs. 529 Plans and UTMA/UGMA (General)

- Open a Trump account whenever the child qualifies for “free money”
- Best suited as a long-term retirement vehicle, especially if:
- Contributions begin at birth
- Child later does a Roth conversion
- Unlike a 529, funds are not required to be used for education
- Unlike UTMA/UGMA, earnings are not taxed annually (federal and most states)
- Trade-off: becomes the child’s IRA at majority (usually 18) and is taxed/penalized like a traditional IRA

vs. 529 Plans (Specific)

529 plans are likely better for education savings:

- Tax-free (not merely tax-deferred) growth
- Higher contribution limits
- Potential state tax deductions
- Roth IRA rollover flexibility
- Trade-off: taxed/penalized if funds are not used for education

vs. UTMA/UGMA (Specific)

UTMA/UGMA may be better for flexibility outside a retirement context:

- No contribution limits
- No withdrawal restrictions (as long as used for the child’s benefit)
- No investment restrictions
- Trade-offs:
- Child gains full control at majority (usually 18)
- Earnings taxed annually to the child
- Cannot be converted to a Roth IRA