The Complete Breakdown: Trump Accounts

What They Are, How the Numbers Work, and How the Roth Conversion Option Works

This guide walks through everything covered in our two-part video series on Trump Accounts (TAs), plus the full mechanics of the Roth conversion option that wasn't covered in detail there. Every dollar figure below is a hypothetical illustration used to show how the account behaves over time. None of it is a projection, promise, or guarantee of actual results, and none of it should be read as a recommendation to open any specific account.

What Is a Trump Account?

Created under the One Big Beautiful Bill Act (OBBBA), the Trump Account (TA) is a new type of retirement account that can be opened on behalf of a child starting July 4, 2026. It is built on the structure of a traditional IRA, with a set of rules unique to the years before the beneficiary turns 18.

- Can be opened and contributed to on behalf of a child from birth through the year they turn 17.
- No withdrawals are permitted before the year the beneficiary turns 18.
- Children born between 2025 and 2028 are eligible for a one-time $1,000 federal pilot contribution, which requires an opt-in election.
- Starting the year the beneficiary turns 18, the account converts to a standard traditional IRA for most practical purposes: the contribution limit changes, the beneficiary needs their own earned income to keep contributing, and only direct contributions are allowed going forward.

Three Ways a TA Can Be Funded

Source	Who Can Contribute	Tax Treatment
Direct	Beneficiary, parents, grandparents, or anyone else, in cash	After-tax (non-deductible)
Employer*	The beneficiary's own employer, or a parent's employer on the child's behalf	Pre-tax, capped at $2,500/year
Qualified General	Federal, state, or local government, or a 501(c)(3) charity, to an entire eligible group	Pre-tax, no cap; does not count against the $5,000 limit

**The $2,500 employer contribution limit applies per employee (i.e., per parent), not per child. A parent with two dependents can direct their employer to contribute up to $2,500 total across both TAs combined, not $2,500 to each child's account. Combined direct and employer contributions are capped at $5,000/year. As one real-world example of a qualified general contribution, the Dell family has committed to funding $250 into TAs for eligible children age 10 and under in certain zip codes.*

How the Money Grows: A Hypothetical Example

To see how these rules play out over time, consider a hypothetical child whose parents contribute $5,000 in the first year, with that contribution increasing 3% annually (roughly tracking inflation) through age 17, reaching about $8,260 in the final contribution year, for a total of roughly $117,000 contributed. No further contributions are made after age 17. The example below assumes a constant, hypothetical 8% average annual rate of return. This is for illustration only. It is not a guarantee, promise, or projection of actual investment performance, and actual returns will vary.

	Age 17 (end of contributions)	Age 60 (no further activity)
Total contributed (basis)	$117,072	$117,072
Hypothetical account value	$247,707	$6,778,918
Untaxed growth	$130,635	$6,661,846

Hypothetical illustration only, assuming an initial $5,000 contribution at birth, increasing 3% annually through age 17 (about $8,260 in the final contribution year), and a constant 8% average annual return thereafter with no further contributions or withdrawals. Actual results will differ, potentially significantly, based on market performance, contribution amounts, fees, and taxes.

The key point this example illustrates: because none of that growth has been taxed along the way, by age 60 the account consists almost entirely of untaxed, pre-tax dollars. That matters because of how withdrawals are eventually taxed, covered next.

Withdrawal Rules

Starting the year the beneficiary turns 18, a TA follows the same distribution rules as a traditional IRA:

- Each withdrawal is part return of basis (tax-free) and part pre-tax growth (taxable as ordinary income), calculated on a pro-rata basis.
- Withdrawals before age 59½ are generally subject to a 10% early withdrawal penalty on the taxable portion, in addition to ordinary income tax, unless a specific exception applies (for example, qualified higher education expenses, up to $10,000 for a first-time home purchase, or a qualifying series of substantially equal periodic payments).
- After age 59½, withdrawals avoid the penalty but the taxable portion is still taxed as ordinary income, not at the lower long-term capital gains rate.
- Beneficiaries and their parents are responsible for tracking basis over time, typically using IRS Form 8606. Losing track of this paperwork can result in the IRS treating the full withdrawal as taxable.

The Roth Conversion Option

Starting the year a TA beneficiary turns 18, some or all of the account can be converted to a Roth IRA. This is the single largest point of leverage in the entire TA structure, and also the most misunderstood, so it's worth walking through carefully.

How a Conversion Works

- The pre-tax portion of whatever is converted becomes taxable as ordinary income in the year of the conversion.
- Once converted and inside the Roth, that money grows tax-free, and qualified withdrawals in retirement are entirely tax-free, no ordinary income tax on the growth.
- If the beneficiary is still a dependent (for example, a full-time student under 24) at the time of conversion, the kiddie tax rules apply to the taxable portion of the conversion, just as they would to investment income. In 2026, that means the first $1,350 converts tax-free, the next $1,350 is taxed at the beneficiary's own rate, and anything beyond $2,700 is taxed at the parents' marginal rate, which can run as high as 37%.
- Paying the tax on a larger conversion typically requires pulling additional funds from the TA itself. That extra withdrawal is generally subject to both ordinary income tax and, since the beneficiary is under 59½, the 10% early withdrawal penalty, which reduces the amount that actually ends up in the Roth.

Hypothetical Conversion Example

Continuing the same hypothetical child from the growth example above, assume that at age 18, with a $247,707 account balance ($117,072 basis, $130,635 taxable growth), the entire taxable portion is converted to Roth in one year at a hypothetical 22% marginal tax rate, with the tax paid out of the account itself. This is a simplified illustration; in practice, a family would likely spread a conversion of this size across several years to manage the tax bracket impact, and actual tax rates depend on each individual's circumstances.

Item	Hypothetical Amount
Taxable portion converted	$130,635
Tax owed on conversion (at 22%)	$28,740
Early withdrawal penalty on the tax withdrawn (10%)	$2,874
Amount actually funding the new Roth IRA	**$216,093**

Hypothetical illustration only. Assumes a 22% marginal federal tax rate applied to the entire conversion in a single year and that the tax and penalty are paid directly from account funds. Actual tax treatment depends on each individual's tax bracket, filing status, dependent status, and the specific rules in effect at the time of conversion.

Grown at the same hypothetical 8% average annual return from age 18 to 60, that $216,093 Roth balance would reach approximately $5,476,000, entirely tax-free at withdrawal. By comparison, the original account left unconverted would reach approximately $6,779,000 pre-tax by age 60, but taxed as ordinary income on withdrawal. At a hypothetical 24% rate at that later withdrawal, the after-tax value of the unconverted account would be approximately $5,180,000. In this specific hypothetical, converting early results in a modestly larger after-tax outcome, though the actual comparison depends heavily on the tax rates used at both points in time, which are impossible to know in advance.

These projections are hypothetical illustrations only, not predictions or guarantees of future results. They do not account for potential changes in tax law, differences in individual tax circumstances, fees, or actual investment performance, which will vary.

Questions Worth Asking Before Opening One

- Is the goal retirement savings, which is what a TA is built for, or a shorter time horizon like education, a first home, or general flexibility?
- Can the family go without touching this money until the beneficiary is near age 60?
- Is financial aid a consideration? TAs are typically excluded from FAFSA asset calculations, while a taxable custodial account (UTMA/UGMA) is counted as the child's own asset.
- Is there a no-cost opportunity on the table, such as the $1,000 federal pilot contribution or an employer match, that could make opening a TA worthwhile even without large ongoing contributions?
- Has the family already used the $35,000 lifetime 529-to-Roth rollover, which converts to Roth entirely tax-free, unlike a TA conversion which is taxable?
- Who will be responsible for tracking basis on Form 8606 over the account's lifetime?

Where to Learn More

- trumpaccounts.gov, the official federal site for opening a Trump Account and electing the $1,000 pilot contribution.
- IRS.gov, search “Form 4547” for the official election form, and IRS Publication 590-B for the general rules governing IRA distributions that also apply to TAs after age 18.
- Kitces.com, “Why Taxable Custodial Accounts Are Better Than OBBBA Trump Accounts For Kids' Savings,” by Ben Henry-Moreland, December 24, 2025, the source for the analytical framework used in this guide.

For anything specific to your own family's tax situation, a conversation with your CPA or tax preparer is the right next step before opening or funding any account. Happy to walk through how a TA might fit alongside your broader financial picture whenever it's useful.
