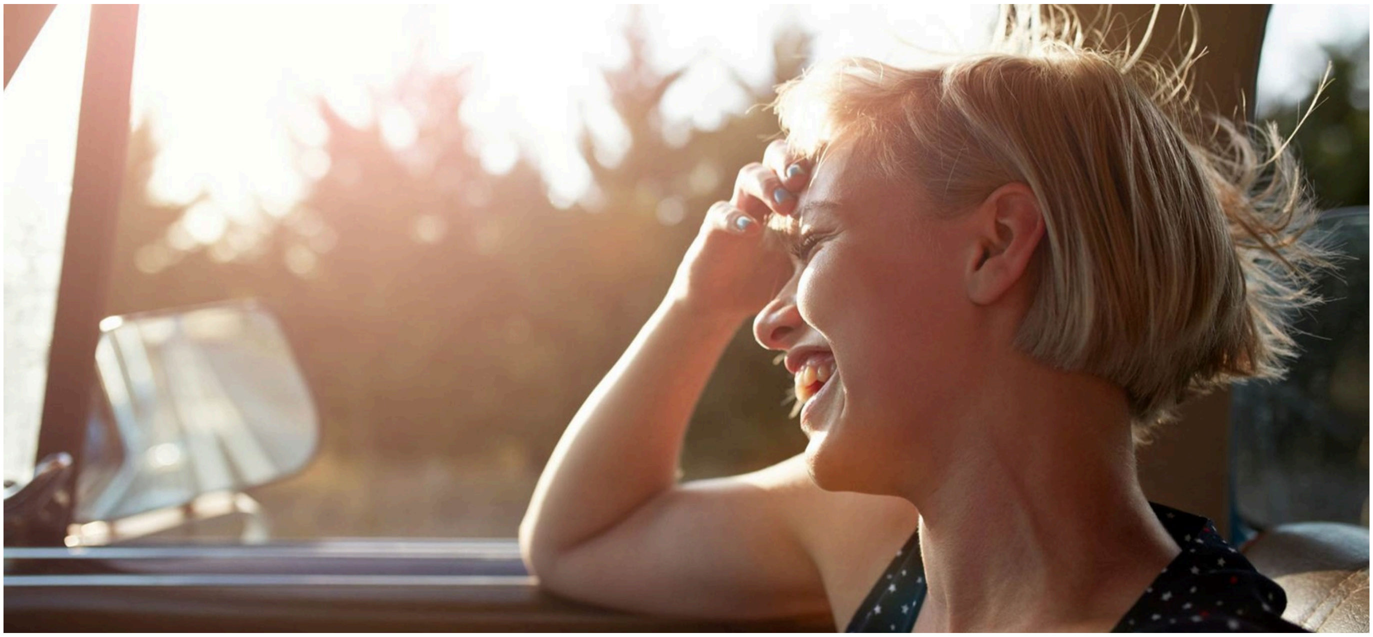

How to give kids an investing head start

26 May 2026, 13:47 UTC, written by Justin Waring, Head UBS Wealth Way Strategy & Solutions, UBS GWM CIO Global Investment Management, Ainsley Carbone, Retirement Strategist, UBS GWM CIO Global Investment Management

Section 530A accounts, also known as "Trump Accounts," are a new type of tax-advantaged account, prompting some to wonder how they fit into the matrix of options for helping children get a head-start on saving and investing.

Key points

- **529 plans remain the most tax-efficient option for education funding,** offering tax-free growth and withdrawals for qualified expenses, flexible use across education categories, and high contribution limits.
- **"Trump Accounts" (Section 530A)** are a new tax-deferred investment vehicle with strict contribution caps, limited investment choices, and less parental control than other account types. Investment earnings are generally taxable upon distribution, making these accounts generally less tax-efficient for college savings, but they could play a role helping children get a head-start on compounding growth for other long-term needs.
- **Account choice depends on goals:** 529s are optimized for education, while Trump Accounts and other vehicles (UGMA/UTMA, IRAs, Coverdells) may support broader or longer-term objectives like retirement, often best used in combination.

Introduction

In honor of National 529 Day, this article will highlight some of the accounts that families can use to help give their children a head start on investing. For example:

1. **Custodial accounts** under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). These assets can be invested on a child's behalf, but become fully accessible to the child upon reaching the age of majority.
2. **529 college savings plans**, designed specifically for education funding (more details below).
3. **Coverdell education savings accounts**, which offer limited contribution amounts but broad education use.
4. **Individual Retirement Accounts (IRAs)**—funded with a child's earned income—aimed at long-term retirement savings rather than near-term expenditures. See the CIO Research report, Should you open a "Kid Roth"?, published 2 July 2024, for details.

Each option reflects a different balance among control, tax efficiency, flexibility, and long-term purpose.

A new option

The One Big Beautiful Bill Act of 2025 adds a new option to this list: Section 530A accounts, also known as "Trump Accounts."

Trump Accounts are tax deferred investment accounts established in a child's name. Eligible children (US citizens born between 1 January 2025, and 31 December 2028) may receive a $1,000 "seed" deposit once their parent or other authorized individual fills out IRS Form 4547 or registers via the online portal at TrumpAccounts.gov.

Once an account is established (any child under 18 can have an account), parents and other contributors are able to add funds, subject to statutory limits (currently $5,000 per year). Employers may contribute $2,500 per year to an employee's or dependent's Trump Account, which is excluded from the employees' taxable income but counts against the $5,000 annual limit. These contributions can be made starting on 4 July 2026, the 250th anniversary of the signing of the Declaration of Independence.

Assets in Trump Accounts must be invested in low-cost US equity index funds (fee must not exceed 0.10%).

The account is in the child's name, with parents/guardians acting as custodians until the child turns 18. Once the child attains 18 years of age, they gain full control of the account, and the taxable portion of any distributions are generally taxed as ordinary income.

Distributions are not permitted prior to age 18 (with limited exceptions). While withdrawals before age 59½ are generally subject to a 10% early withdrawal penalty, exceptions are permitted for qualified purposes, including education.[1]

529 college savings plans

By contrast, 529 college savings plans are designed specifically for qualified education expenses. Contributions are made with after-tax dollars, assets grow tax-free, and withdrawals for eligible costs—such as tuition, fees, books, and room and board—are generally exempt from federal income tax.

There is no annual contribution limit, though amounts exceeding the gift tax exclusion ($19,000 per donor per beneficiary in 2026) may require a gift tax filing and reduce the lifetime exemption. 529 plans also allow "accelerated gifting," enabling contributions up to five times the annual exclusion in a single year ($95,000 for individuals; $190,000 for married couples) without triggering gift taxes or using the lifetime exemption.[2]

Investment options are typically broad—often including U.S. and international equities, bonds, and asset allocation funds—though they vary by plan.

Withdrawals for qualified education expenses are generally tax-free. Non-qualified withdrawals may result in taxes on earnings and a 10% penalty on the earnings portion, and some states may recapture prior tax benefits.[3]

College funding comparison: 529s versus Trump Accounts

To better understand how the tax differences may affect outcomes, the table below contrasts the hypothetical growth of funds contributed to each account type when the funds are earmarked specifically for college expenses.

In Scenario 1, the Trump Account receives a $1,000 government contribution at the child's birth and $5,000 in annual parental contributions. In Scenario 2, the same initial $1,000 is contributed, but the $5,000 annual parental contributions are directed to a 529 plan.

To keep the analysis comparable, the illustration assumes contributions occur at the beginning of each year from birth through age 17 (18 annual parent contributions, for a total parental contribution of $90,000).[4] In both cases, assets grow at 6% annually and are fully withdrawn for college expenses at the end of the year the child turns 18 years old, assuming a 12% federal income tax rate.

Results

By the time the funds are withdrawn, the initial "seed" contribution in the Trump Account has grown from **$1,000** to **$3,026**.

- In **Scenario 1**, the seed contribution is joined by **$90,000 of parental contributions**, resulting in a **total Trump Account balance of $176,654**.
- In **Scenario 2**, the Trump Account holds only the seed contribution (also valued at **$3,026**), while the **$90,000 of parental contributions** directed to the 529 plan have grown to **$173,628**.

Table 1 - College savings comparison

	Scenario 1		*Scenario 2*	
	Trump Account	529 Plan	Trump Account	529 Plan
Ending account value	$176,654	$0	$3,026	$173,628
Taxes owed on distribution	-$10,398	0	-$363	0
After-tax value	**$166,255**		**$176,290**	

Source: UBS. For illustration purposes.

In both cases, the total pretax value of the accounts is **$176,654**. However, a difference arises when these funds are withdrawn for college.

When used for qualified education expenses, 529 plan withdrawals are generally free from federal income tax, allowing the full balance to be applied toward college costs.

By contrast, Trump Account distributions are subject to taxes on the investment growth and the $1,000 government contribution. If the funds are used for education, the account will generally avoid paying a 10% penalty for the early (pre-59½) withdrawal. No income tax is due on the $90,000 of parental contributions, which were made on an after-tax basis.

Therefore, Scenario 1 results in approximately **$166,255** of after-tax funds available for college, compared with **$176,290** in Scenario 2.

Stated differently, the Trump Account–focused strategy results in about **6% less net funding for education** than the 529-focused strategy under these assumptions.

These results aren't too surprising. After all, 529 plans were specifically structured to help fund education expenses.

Other considerations

529 plan assets can be used for **a broad range of qualified expenses** beyond tuition, including room and board, books, required supplies, and certain technology costs, making them a common tool for funding ongoing educational expenses.[5]

Beginning in 2026, up to **$20,000 per year per beneficiary** may be withdrawn tax-free for K-12 education. Eligible expenses extend beyond tuition to include curriculum materials, tutoring, standardized test fees, dual-enrollment costs, and certain educational therapies.[5] State tax treatment may differ, with some states taxing or penalizing withdrawals treated as non-qualified.[6]
Unused assets can be reallocated to other beneficiaries or used for graduate programs, trade and vocational schools, apprenticeships, and certain certification expenses.[6]

Up to $35,000 per beneficiary (lifetime) may also be rolled from a 529 into a Roth IRA, provided the 529 account has been open for at least 15 years. Rollovers are not constrained by income limits, but 529-to-Roth rollovers are treated and reported as Roth IRA contributions; therefore, they are subject to annual IRA contribution limits (e.g., $7,500 for tax year 2026) and therefore may take several years to complete.[7]

If Trump Account assets are not used for education, they may continue compounding and later be treated as (or transferred into) a Traditional IRA upon adulthood, subject to applicable rules, with the option to convert to a Roth IRA. Unlike 529 accounts—which remain fully controlled by the account owner, and can even be repurposed to benefit other family members—Trump Accounts will be fully owned and controlled by the child once they reach the age of 18.

In the example above, what if the Trump Account is transferred into a Traditional IRA and then converted to a Roth IRA at age 19, instead of being used for education? If we assume that another account pays the ~$19,000 income tax bill for the Roth conversion (assuming a 22% tax rate), the Trump Account could grow from **$176,654** to **$2,041,591** by age 60, at which withdrawals would be income tax-free. Not a bad result for **$91,000** of total contributions.

While less efficient for near-term education, Trump Accounts may better support long-term retirement goals, particularly for children without earned income to fund an IRA directly.

Conclusion and next steps

There are a variety of accounts that can be used to help families give their kids a head-start on saving for college, spending, or even retirement.

For families focused on maximizing after-tax growth potential for qualified education expenses, 529 plans appear to be the most efficient and flexible option, as they offer tax-free growth and withdrawals for a broad set of education expenses, high contribution limits, and the ability to change beneficiaries or roll over unused funds to a Roth IRA (subject to current law and state rules).

For other long-term growth priorities, there are a variety of other account types that may be more suitable. To help families weigh the pros and cons of different accounts—including Trump Accounts—we have added a table to the Appendix of this report that summarizes their tax treatment, flexibility, and financial aid impact.

Ultimately, each family should determine their approach based on priorities, the child's future plans, and the evolving tax landscape. In many cases, a combination of accounts may offer the best balance of tax efficiency and flexibility.

Families should review their goals, evaluate scenarios, and consult financial and tax advisors to develop an appropriate strategy. As with all tax-advantaged accounts, rules may change, making periodic review important.

End notes

[1] Internal Revenue Service. (n.d.). One Big Beautiful Bill provisions. https://www.irs.gov/newsroom/one-big-beautiful-bill-provisions.

[2] IRC § 529(c)(2)(B). It is necessary to file a gift tax return to claim this treatment by making an accelerated gifting election on IRS Form 709, to be filed with your federal tax return for the first tax year in which the accelerated gift is given. You cannot use the annual exclusion for gifts to this individual before the end of five calendar years, but subsequent rounds (i.e., every five years) of accelerated gifting is permitted.

[3] Invest529. (n.d.). *Tax benefits of 529 plans*. https://www.invest529.com/529-basics/tax-benefits/.

[4] For Single tax filers in the 2026 tax year, the 12% marginal tax bracket covers taxable income from $12,400 to $50,400. See the CIO Global IM team's 2026 Tax fact sheet for more details.

[5] US Internal Revenue Service. Tax Topic No. 313: Qualified tuition programs (QTPs). Retrieved May 14, 2026, from https://www.irs.gov/taxtopics/tc313

[6] The One Big Beautiful Bill Act (signed 4 July 2025) expanded qualified K–12 education expenses and increased the federal annual withdrawal limit from $10,000 to $20,000 per beneficiary, effective January 1, 2026. State tax conformity varies; at the time of writing, California, Colorado, Illinois, Michigan, Minnesota, Nebraska, New York, and Oregon consider K-12 tuition payments to be non-qualified 529 distributions. As with other nonqualified distributions, these states may impose state income taxes and penalties on 529 account earnings, and may require you to repay a share of the income deduction that you took on certain state and local taxes when you made the original 529 contribution. Check with individual plans and consult a tax professional for additional details.

[7] At this time, not all states allow 529-to-Roth rollovers. As the time of writing, California, DC, Indiana, Massachusetts, Michigan, Minnesota, Montana, Utah, and Vermont have not approved such rollovers, and Arkansas, Colorado, Connecticut, Louisiana, Mississippi, and Missouri have unclear policies or are in the process of approving rollovers. Check with individual plans and consult a tax professional for additional details.

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Appendix: Child savings vehicles overview

Account type	Legal owner / control	Earned income required?	Primary purpose	Tax treatment (growth & withdrawals)	Flexibility of use	FAFSA / financial-aid impact
529 College Savings Plan (parent-owned)	Parent is account owner; beneficiary can be changed	No	Education	Tax-free growth and withdrawals for qualified education expenses	Education-focused but increasingly broad (college, grad school, K-12, credentials, apprenticeships)	**Considered a parent asset** (up to 5.64% assessed). **Qualified withdrawals do not count as student income**.
529 College Savings Plan [non-parent-owned (e.g., grandparent)]	Owner controls; beneficiary can be changed	No	Education	Same tax treatment as above	Same as above	Asset **not reported** on FAFSA, distributions do not **count as student income** under FAFSA (but may be flagged by other aid programs).
Custodial Roth IRA ("Kid Roth")	Child owns; adult custodian controls until majority	**Yes**	Retirement	Contributions after tax; qualified retirement withdrawals tax-free	Long-term retirement only	**Not reported as an asset on FAFSA**; however, **distributions count as student income**, which can heavily reduce aid if taken during college years.
Custodial Traditional IRA ("Kid IRA")	Child owns; adult custodian controls until majority	**Yes**	Retirement	Tax-deferred growth; withdrawals taxed as income	Long-term retirement only	Asset not reported; **withdrawals treated as student income**, often highly adverse for aid.
Trump Account	Child owns; adult custodian controls until majority	No	Education and/or long-term savings	Tax-deferred growth; taxable distributions; education exceptions apply	More optionality than 529, less than custodial	FAFSA guidance still evolving. **Likely treated as a parent asset while controlled by parent**; **distributions may count as income** depending on use and structure.
Custodial brokerage (UTMA/UGMA)	Child owns; adult custodian controls until majority	No	Any purpose	Taxable dividends/capital gains (kiddie tax may apply)	Very broad	**Counted as a student asset** (assessed at up to ~20%). **Dividends/capital gains count as student income**, often materially reducing aid eligibility.
Coverdell ESA	Typically adult controls for child	No	Education	Tax-free growth for qualified education expenses	Education-focused (with contribution limits)	Generally treated like a **parent-owned 529** when parent-controlled; favorable relative to student assets.
ABLE account (if beneficiary qualifies)	Beneficiary / authorized individual	No	Disability-related support	Tax-advantaged for qualified disability expenses	Restricted to qualified disability expenses	**Excluded up to certain thresholds** for federal aid; interactions with need-based aid and benefits can be complex.
Trust for a minor (irrevocable)	Trustee controls per trust terms	No	Varies by trust design	Depends on trust taxation	Highly customizable	Treatment varies: often **reported as a student asset** if funds are available for support; distributions may count as income. Requires careful drafting.
Standard taxable brokerage (parent-owned, earmarked for child**)**	Parent owns	No	Any purpose	Taxable	Very flexible	**Parent asset** on FAFSA; more favorable than student-owned assets, but no education tax benefits.

Source: IRS, studentaid.gov, UBS. For illustration purposes.

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