

Children's Financial Planning: Account Comparison

A side-by-side comparison of UGMA/UTMA Custodial Accounts, 529 College Savings Plans, and Trump Accounts (OBBA 2025) for parents planning long-term financial goals for their children.

Account Type	Typical Use	Major Tax Advantages & Considerations	Restrictions on Use	Optimal Time Horizon
UGMA / UTMA (Custodial Account)	General-purpose savings and investment account for a minor child. Used for any financial goal — education, first car, housing down payment, starting a business, or any other need before or after adulthood. No designated purpose required.	No federal tax deduction for contributions. Investment income subject to "Kiddie Tax": first \$1,350 (2026) tax-free; next \$1,350 taxed at child's rate (often 0%); amounts above \$2,700 taxed at parent's rate. Capital gains can be harvested annually at 0% rate up to the \$2,700 threshold to build higher cost basis over time. Long-term capital gains taxed at favorable rates (0%/15%/20%). Step-up in basis at owner's death eliminates unrealized gains. Assets counted as child's assets on FAFSA, potentially reducing need-based financial aid.	No contribution limits (annual gift tax exclusion of \$19,000 in 2026 applies to third-party gifts). No restrictions on how funds are used after transfer to child. Assets irrevocably belong to child upon contribution — parent cannot reclaim funds. Child gains full control at state's age of majority (typically 18 or 21). No investment restrictions. No penalties for early withdrawal.	Highly flexible — suitable for any time horizon, from short-term (5–10 years) to long-term. Most effective when started early (birth to age 10) to maximize tax-free capital gain harvesting through age 23. No mandatory withdrawal age.
529 College Savings Plan	Tax-advantaged savings vehicle designed for qualified education expenses including higher education tuition, fees, books, room & board; K-12 tuition (up to \$10,000/year); student loan repayment (up to \$10,000 lifetime); and postsecondary vocational programs. Can also be used for multigenerational education planning via a "Dynasty 529" strategy.	No federal tax deduction; many states offer a deduction or credit for in-state plan contributions. Earnings grow tax-deferred and distributions for qualified education expenses are completely tax-free (federal and usually state). Non-qualified withdrawals subject to income tax plus 10% penalty on earnings only. Up to \$35,000 can be rolled over to a Roth IRA (lifetime maximum, subject to annual Roth contribution limits).	No annual contribution limit, but total balance caps vary by state (\$235,000–\$529,000). Funds must be used for qualified education expenses to avoid taxes and penalties. Beneficiary must be a family member to change without tax consequences. Changing beneficiary to a younger generation may trigger gift/generation-skipping transfer tax (GSTT). Account can continue growing indefinitely — no required	Typically 5–20 years (birth through college). For a Dynasty 529 strategy, can span multiple generations (50+ years). Best opened as early as possible to maximize tax-free compounding. No mandatory end date.

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		Superfunding allows a lump-sum contribution of up to 5x the annual gift tax exclusion (\$95,000 in 2026) without gift tax consequences. Not counted as a student asset for FAFSA purposes (when parent-owned), minimally affecting financial aid eligibility.	minimum distributions or mandatory distribution age. Investment options limited to those offered by the plan sponsor.	
Trump Account (OBBBA 2025)	Retirement-focused savings account for minor children, modeled on a traditional IRA. Primary purpose is to give children a decades-long head start on retirement savings. Available starting July 4, 2026. Best used as a long-term wealth-building supplement after college savings and parent retirement goals are funded. Key advanced strategy: convert to Roth IRA in early adulthood for potentially tax-free retirement wealth.	Contributions are after-tax (non-deductible); employer and government contributions are pre-tax. Growth is tax-deferred. Upon distribution, pro-rata portion is taxable at ordinary income rates. If converted to Roth IRA after age 18, future growth and withdrawals can be tax-free. \$1,000 federal pilot contribution for children born 2025–2028. Potential additional qualified general contributions from state/local governments and 501(c)(3) charities (e.g., \$250 Dell Family pledge). Subject to Kiddie Tax on distributions/Roth conversions while child is a dependent (through age 23 if full-time student). Subject to Required Minimum Distributions (RMDs) starting at age 75 (unless converted to Roth). Large pre-tax balances may create future tax planning burden similar to traditional IRA owners. Excluded from FAFSA asset calculations, unlike UGMA/UTMA accounts.	Contribution limit: \$5,000/year through age 17 (indexed to inflation starting 2028); up to \$2,500 may come from employer. No contributions after age 17 under TA rules (IRA contribution rules apply starting at age 18). Must be invested in U.S. stock index fund until age 18. No withdrawals until age 18. Distributions before age 59½ subject to 10% early withdrawal penalty (exceptions for higher education expenses, first-home purchase up to \$10,000, annuity payments). Gains taxed at ordinary income rates upon withdrawal (not favorable capital gains rates). Roth conversion available starting at age 18, but Kiddie Tax may apply through age 23. Inherited TAs subject to SECURE Act 10-year rule for non-spouse beneficiaries.	Extremely long — ideally 60+ years (birth through retirement at age 59½ or beyond). The power of the account comes from tax-deferred compounding over multiple decades. Roth conversion strategy optimally executed in early adulthood (ages 18–30) during low-income years. Not suitable as a short- or medium-term savings vehicle.

Important Notes & Planning Considerations

Account Selection Strategy: These three vehicles are not mutually exclusive and can be used in combination. A common approach is to (1) fund a 529 for near-term education costs, (2) open a UGMA/UTMA for flexible savings with Kiddie Tax advantages, and (3) consider a Trump Account as a long-term retirement head-start — only after parents' own retirement accounts are sufficiently funded.

Trump Account Roth Conversion Strategy: The most powerful use of the Trump Account is to convert it to a Roth IRA in the beneficiary's early working years (after leaving dependent status, typically age 24+). With \$5,000/year contributions from birth through age 17 plus the \$1,000 pilot contribution, a properly managed Roth conversion could grow to \$3+ million tax-free by retirement (assuming 7% annual growth). Parents paying the conversion tax liability out-of-pocket maximizes the Roth value.

UGMA/UTMA vs. Trump Account: Research (Kitces.com) indicates that on a pure after-tax basis at retirement, a well-managed taxable custodial account with annual capital gain harvesting can match or outperform a Trump Account — due to lower capital gains tax rates vs. ordinary income tax on Trump Account distributions, greater flexibility, and the step-up in basis at death. The Trump Account's primary advantage lies in the Roth conversion opportunity and the availability of "free" government/charitable seed money.

Dynasty 529 Planning: For affluent families, a Dynasty 529 can be funded with a large lump sum (e.g., \$500,000 per account via 5-year gift-tax averaging) and used to cover qualified education expenses across multiple generations — grandchildren, great-grandchildren, and beyond — all growing completely tax-free.

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