July 3, 2025

2025 TAX BILL PROVIDES KEY CHANGES FOR SAVERS

Congress passed the tax bill known as the One Big Beautiful Bill Act (OBBBA) on July 3, 2025. This article outlines certain retirement and financial provisions included in the OBBBA.

The OBBBA introduces new birth-based custodial accounts, known as “Trump accounts”. It also extends provisions for Achieving a Better Life Experience (ABLE) accounts that were set to expire at the end of 2025. In addition, the tax bill extends and expands 529 and health savings account (HSA) provisions, and updates the rules for executive pay, tax-exempt compensation, and certain tax rates.

“Trump Accounts” Introduced

The OBBBA introduces new birth-based custodial accounts, (i.e., "Trump accounts") aimed at providing financial support from birth to retirement. The OBBBA states that these accounts would be traditional individual retirement accounts (IRAs) subject to special rules until the year a child turns age 18, after which the accounts generally appear to follow the rules that apply to traditional IRAs.

The OBBBA provides eligibility criteria to establish a Trump account, defines the types of contributions that may be made, establishes the rules for when distributions may occur, outlines the tax treatment of these accounts, and defines the eligible investment options and reporting requirements.

Account Eligibility and Establishment

Trump accounts would be created or organized by the Treasury Secretary for the exclusive benefit of an “eligible individual” or their beneficiary. To qualify for a Trump account, an “eligible individual” must be under age 18 in the calendar year the account is established, have a Social Security number, and be subject to an election to establish the account. A Trump account may also be established by a private individual (e.g., a parent) for a child before the year they reach age 18 if it is funded by a “qualified rollover contribution”.

Contributions

Contributions to a Trump account are generally limited to $5,000 per child per calendar year for years prior to the year in which the child turns age 18. Contributions must be made by December 31 of the applicable year. For example, if a child turns 18 on March 28, 2027, the final year for contributions would be 2026, with a deadline of December 31, 2026. Contributions made before the year in which the child turns 18 are not tax-deductible. Beginning in 2028, the annual contribution limit will be indexed for inflation. No contributions of any kind may be made until 12 months after the enactment date of the OBBBA.

- **Federal Pilot Program Contributions.** Under the Trump accounts Contribution Pilot Program, the Treasury Department may give a one-time $1,000 contribution for a U.S. citizen child born after 2024, and before 2029, if elected by the child’s parent. This contribution does not count toward the $5,000 annual contribution limit.
- **Individual Contributions.** Any individual (e.g., parent, grandparent) may establish a Trump account for a child under age 18, but the account must be initially funded by a “qualified rollover contribution”. This suggests that contributions must be made to an account initially established by the Treasury Department with an approved trustee. These contributions count toward the $5,000 annual contribution limit.

- **Qualified Rollover Contributions.** A "qualified rollover contribution" refers to an amount rolled over directly from one Trump account to another Trump account for the same child, provided the rollover includes the entire balance of the original account. The amount of the rollover does not count toward the $5,000 annual contribution limit.
- **Employer Contributions.** Employers may make contributions up to $2,500 (indexed) to a Trump account established for an employee or their dependent, under a separate written plan of the employer. It appears these contributions would be included in the annual $5,000 contribution limit.
- **Qualified General Contributions.** A “qualified general contribution” is a government or charitable (i.e., 501(c)(3) nonprofit organization) contribution made to the Trump accounts of a defined group of beneficiaries known as a “qualified class”. A “qualified class” includes individuals under age 18 and may be further limited by geographic area (with at least 5,000 beneficiaries) or birth year. The total contribution is divided equally among all beneficiaries in the class. These contributions do not count toward the $5,000 annual contribution limit.

Distributions

Distributions from Trump accounts are generally prohibited until the calendar year in which the child turns age 18, unless a specific exception applies. Qualified rollover contributions, qualified ABLE account rollover contributions, and distributions of excess contributions may be made at any time. After age 18, distributions are allowed under the same rules that apply to traditional IRAs.

- **Qualified Rollover Contributions.** As described above, the entire balance of a Trump account may be rolled over to another Trump account for the same child at any time as a non-taxable event.
- **Qualified ABLE Account Rollover Contributions.** Trump account assets can be rolled over to an ABLE account, but only if the entire account balance is rolled over directly in the calendar year in which the child attains age 17. These contributions do not count toward the annual ABLE account contribution limit.
- **Distributions of Excess Contributions.** If contributions exceed the annual contribution limit in any year before the child turns age 18, the excess may be withdrawn without being taxed. However, any earnings on that excess are subject to 100 percent tax.

When distributions are allowed, they are taxed under Internal Revenue Code Section (IRC Sec.) 72. This means that the earnings portion of the distributed amount is taxable. Contributions to Trump accounts are taxed differently based on their source when distributions are made. Contributions made by individuals—such as parents or grandparents—are considered part of the account owner’s basis. As such, these amounts are not taxable when distributed, similar to nondeductible contributions to a traditional IRA. In contrast, contributions made through the federal pilot program, by employers, or as qualified general contributions are not included in the account owner’s basis. Although contributions made by these sources are not taxable when made, they are fully taxable when distributed.

Any portion of a distribution that is not considered basis is taxed as ordinary income under the basis recovery rules of IRC Sec. 72; and a 10 percent additional early distribution tax may apply to withdrawals made before age 59½, unless an exception under IRC Sec. 72 applies (e.g., qualified higher education expenses, qualified first-time home buyer (up to $10,000), emergency personal expenses).

Trump accounts are treated as separate contracts under IRC Sec. 72, meaning distributions from these accounts are not aggregated with distributions from other IRAs for tax purposes. If the child dies before reaching age 18, the account is no longer treated as a Trump account, and the age-based distribution restriction no longer applies. In that case, the person who inherits the account must include the fair market value of the account—less any basis—in their gross income for the year of inheritance. This treatment differs from traditional IRAs, which may remain tax-deferred for a period after death under required minimum distribution (RMD) rules.

Eligible Investments

Trump accounts must be invested in an "eligible investment” which must be a mutual fund or exchange traded fund that tracks the returns of a qualified index and does not use leverage. In addition, the fund’s annual fees and expenses must not exceed 0.1 percent of the balance of the investment in the fund. A qualified index is the S&P 500 or any other index made up of mostly U.S. company stocks that have regulated futures contracts traded on a qualified exchange. While indexes based on market capitalization (such as large-cap and mid-cap) are allowed, industry and sector-specific indexes are not permitted.

Reporting Requirements

The OBBBA introduces new reporting requirements for trustees of Trump accounts. Trustees must report detailed information to both the Secretary and account owner. This includes all contributions (including the amount and source of any contribution exceeding $25 from anyone other than the Secretary, account owner or their parent or legal guardian) and distributions (including qualified rollovers). Trustees must also report the fair market value of the account and the total investment in the contract (i.e., basis) of the account.

The Trump account trustee would also need to report specific information within 30 days of accepting a rollover contribution. This report must include the account owner's name, address, and Social Security number, along with account and routing details, as well as the trustee's contact information. This means reporting would occur throughout the year rather than only on designated dates.

These new reporting requirements apply until the end of the calendar year in which the account owner turns 17, after which standard IRA reporting rules would apply.

ABLE Account Provisions Extended

The OBBBA makes permanent several key provisions affecting ABLE accounts, originally established by the Tax Cuts and Jobs Act (TJCA), which are set to expire at the end of 2025. These provisions include the following.

Additional Contributions for Employed Individuals

Subject to certain limitations, employed eligible individuals could contribute amounts in addition to the annual contribution limit to their ABLE account. This additional contribution amount would be capped at either the prior year's federal poverty level for a one-person household or the beneficiary's yearly compensation, whichever is less.

Nonrefundable Saver's Credit

Eligible individuals making qualified contributions to their ABLE account would permanently be eligible for a nonrefundable Saver's Credit and beginning in 2027 the annual contribution eligible for the Saver's Credit will increase to $2,100 with a maximum tax credit of $1,050 as determined by the adjusted gross income of the eligible individual.

529 Account Rollovers

Assets from a 529 education savings account could be rolled over into an ABLE account. Subject to certain limitations, these rollovers would not be subject to income taxation, provided the amounts do not exceed the ABLE annual contribution limit.

Contribution Limit Adjustment

The OBBBA also includes a provision to change the base year used in calculating the annual contribution limit, which could effectively increase the annual contribution limit for future tax years.

529 Plan Enhancements

The OBBBA increases the annual limit on the use of 529 plan assets for K-12 expenses from $10,000 to $20,000 beginning in 2026.

K-12 "Qualified Higher Education Expenses" Definition Expanded

The bill expands the term "qualified higher education expenses" to now include the following expenses (in addition to tuition) in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

- Curriculum and curricular materials
- Books or other instructional materials
- Online educational materials
- Tuition for tutoring or educational classes outside of the home
- Fees for certain standardized tests
- Fees for dual enrollment in an institution of higher education, and
- Certain educational therapies for students with disabilities (e.g., K-12 expenses)

"Qualified Higher Education Expenses" Includes Postsecondary Credentialing Expenses

In addition, the definition of "qualified higher education expenses" is expanded to include "qualified postsecondary credentialing expenses" associated with obtaining and maintaining a "recognized postsecondary credential" through a "recognized postsecondary credential program".

"Qualified postsecondary credentialing expenses" include

- tuition, fees, books, supplies, and equipment required for the enrollment or attendance in a recognized postsecondary credential program, including if such expense would, if incurred in connection with enrollment or attendance at an eligible educational institution, be treated as a qualified higher education expense,

- fees for testing required to obtain or maintain a recognized postsecondary credential, and
- fees for continuing education if required to maintain a “recognized postsecondary credential”.

A “recognized postsecondary credential" includes

- an industry-recognized postsecondary employment credential that is
  - accredited by reputable organizations,
  - listed in the Department of Defense's COOL directory, or
  - identified by the Treasury Secretary in consultation with the Labor Secretary.
- a certificate of completion of an apprenticeship registered under the National Apprenticeship Act.
- an occupational or professional license issued or recognized by a state or the federal government.
- a credential defined in the Workforce Innovation and Opportunity Act.

A "recognized postsecondary credential program" is defined as any program on a state list under the Workforce Innovation and Opportunity Act, included in the Veterans Benefits Administration's WEAMS directory, requiring an examination by a reputable credentialing organization, or identified by the Treasury Secretary in consultation with the Labor Secretary.

The expanded definition of qualified higher education expenses is effective for distributions after the enactment date of the OBBBA.

Health Savings Account Coverage Expanded

The OBBBA included two HSA provisions—allowing individuals with high deductible health plans (HDHPs) to enroll in direct primary care arrangements while remaining HSA eligible as long as the monthly fee does not exceed $150, and expanding the definition of an HDHP to include bronze and catastrophic health insurance plans purchased on the Exchange under the Patient Protection and Affordable Care Act. The bill also permanently extends and makes retroactive the special “telehealth safe harbor” established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act that expired December 31, 2024, for HSA-compatible HDHPs.

Executive Pay Deductions and Oversight of Tax-Exempt Compensation

IRC Sec. 162(m) Aggregation Rule Added

Currently, publicly held corporations cannot deduct applicable employee pay over $1 million for certain employees for federal income tax purposes. The OBBBA adds aggregation and allocation rules under IRC Sec.162(m), applying this limit to “specified covered employees” of publicly held corporations within a controlled group. A “specified covered employee” with respect to the publicly held corporation which is a member of a controlled group means the principal executive officer, principal financial officer, the three other highest paid officers, and any previously covered employees of the publicly held corporation. The American Rescue Plan Act further expands the definition of specified covered employees to include the next five highest paid employees for tax years beginning in 2027.

Tax on Excess Tax-Exempt Organization Executive Compensation Expanded

Currently, applicable tax-exempt organizations are subject to a 21 percent excise tax on compensation over $1 million and excess parachute payments for generally the five highest-paid employees in a given tax year. The OBBBA broadens the excise tax to include all current and former employees of applicable tax-exempt organizations or a predecessor organization.

Tax Rate Changes

The OBBBA includes provisions that reduce tax rates, increase standard deductions, and make the qualified business income deduction permanent. For tax purposes, sole proprietorships, partnerships, limited liability companies, and S corporations are known as “pass-through” entities because their profits are transferred to the owners and taxed at individual rates instead of corporate rates.

Extension and Enhancement of Reduced Individual Tax Rates and Other Changes

- The TCJA reduced individual tax rates are made permanent, including adding an additional year of inflation adjustment to the 12 percent and 22 percent brackets.
- The TCJA increased standard deduction is made permanent and further enhanced.

IRC Sec. 199A Qualified Business Income Deduction for Pass-Through Entities

- The 20 percent deduction for qualified business income (QBI) is made permanent.

- The deduction phase-in limits are increased to $75,000 ($150,000 for joint filers) from $50,000 ($100,000 for joint filers).
- A new minimum deduction is created for active QBI of $400 (indexed beginning in 2027) for a taxpayer who's aggregate QBI with respect to all active qualified trades or businesses (within the meaning of IRC Sec. 469(h)) of the taxpayer for such taxable year is at least $1,000 (indexed beginning in 2027).

Next Steps

The President is expected to sign the bill on July 4, 2025. Visit ascensus.com for the latest developments.

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