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# A Trump Account: A Proposed New Tax Preferred Account to Benefit Certain Children

If enacted into law, commencing for 2026 a Trump Account (TA) may be established by a parent or parents to benefit certain children. The TA pays no income tax on its earnings. Contributions may be made in future years for any child who is under the age of eight years old as of January 1, 2026. Contributions must cease for the TA beneficiary once she or he is age 18.

A TA is used to accumulate funds to be used by the child when he or she is age 18 or older. The funds would be used to pay higher education or training program expenses, to make loan payments on a small business loan or used to make a first time home purchase. Such a distribution from a TA would be "qualified" and would be taxed as long term capital gains. Other distributions would be taxed as ordinary income.

In order to establish a TA for an eligible child at least one parent must provide their social security number which must be considered work-eligible and the child must be a U.S. citizen.

### The Contribution Rules

1. There is an annual contribution limit of $5,000 if the person or party making the contribution is a taxable entity. There is no tax deduction granted for making such contribution. The $5,000 limit is indexed for inflation. Taxable contributors are parents, relatives and other taxable entities such as a corporate employer.
2. Contributions may also be made by a non-profit entity or a government entity facilitated by the U.S. Treasury. For an example, a foundation is one example of a tax exempt entity which could make contributions.
3. There is no annual contribution limit if the person or party making the contribution is a tax exempt entity. That is, the $5,000 limit does not apply.
4. Contributions which are made by a tax exempt entity must be made for all children within certain qualified groups such as - all the children in a state, all the children within a certain school district, all the children of a certain school, etc.

### The Distribution Rules

1. A qualified distribution from a TA is taxed as long term capital gains. The distributions are not tax free. Other distributions would be taxed as ordinary income.
2. The TA accountholder is ineligible to withdraw funds until age 30 if the withdrawal is not qualified ..
3. The TA accountholder's withdrawal is long term capital gains if the withdrawal is qualified.
4. Other distributions are taxed as ordinary income.

**Continued on page 2**

## ALSO IN THIS ISSUE –



**Collin W. Fritz and Associates, Inc.,**
*"The Pension Specialists "*

Trump Account,
Continued from page 1

5. When the TA accountholder is between the ages of 18-25, his or her qualified withdrawals are limited to 50% of the TA balance.
6. When the TA accountholder is 25, he or she may withdraw 100% of the TA as long the withdrawal is qualified.
7. When the TA accountholder is age 30, she or he may withdraw TA funds for any reason.

### The Investment Rules

The TA must be established and administered at a financial institution authorized to be an IRA custodian.

The TA funds must be invested in a diversified fund that tracks an established index of U.S. equities. A TA cannot be invested in a different manner such as in time deposits as issued by a bank.

### A Special Program For Newborns

The Senate has proposed to add a new feature to the TA rules for newborns. The federal government will contribute $1000 per child for U.S. citizens born between January 1 2024 and December 31, 2028. The rules for establishing a TA for a newborn are a little different. This account may be established by parents or guardians. Both parents are required to provide their social security numbers and be considered to be work-eligible.

The U.S. Treasury via the IRS is to establish in certain situations the TA for the newborn if such an account has not been established for the newborn by the time the parents file their first tax return where the newborn is claimed as a qualifying child. Somehow the IRS will determine the parents's preferences for who will be the TA custodian and what fund will be selected as the investment.

This is a preliminary summary of this new proposed law so there will be additional provisions.

Parents will have the right to opt out of this newborn account.

## Be Careful When Paying Low Interest Rates on IRA Deposits/Accounts

Paying too low of an interest rate(s) on IRA deposits may mean a prohibited transaction is being caused by the financial institution.

It is important for a bank serving as an IRA custodian to be paying a reasonable rate of interest on its IRA deposits. A bank not paying a reasonable rate of interest has prohibited transaction concerns. We recommend that you discuss this subject with your law firm or internal counsel. Assuredly this is a complicated subject. What is reasonable is based on the market, it is not defined in the law. However, we see paying a low interest rate on IRA deposits when you are paying higher rates on non-IRA deposits as problematic.

The IRS has the authority to assess the IRA custodian a 15% excise tax when an IRA custodian causes a prohibited transaction.

## Your Business Customers May Adopt a SEP-IRA Plan Rather Than a State Mandated IRA Plan

The State of Minnesota as other blue states have enacted laws requiring certain small businesses to establish a state mandated IRA retirement program. This new requirement is in effect in many cases for 2025. The DOL of the Biden administration allowed states to enact such laws even though ERISA states the federal government is to be the sole provider of retirement plan laws. We expect the current Department of Labor (DOL/EBSA) will be issuing guidance shortly setting forth guidance that an employer who has a SEP-IRA plan is exempt from a stated mandated IRA plan. Employers will not need to make any required contributions under the state plan.

Please contact us if we might assist with questions or problems. We provide assistance on IRAs, SEP-IRAs, SIMPLE-IRAs, 401(k) plans, HSAs and the proposed TRUMP accounts.

## An IRA Custodian's/Trustee's Duties To Withhold For Resident Aliens and Nonresident Aliens

The IRS believes income tax withholding is very important and so should all IRA custodians/trustees. A substantial tax liability may arise if an IRA custodian/trustee fails to comply with the applicable withholding laws. There are certain withholding rules for residents, resident aliens and different withholding rules for nonresident aliens.

Many times a resident alien will be an IRA accountholder. However, once a resident alien dies many times his or her beneficiary(ies) will be nonresident aliens.

The purpose of this article is to explain the income tax and the withholding rules for IRA distributions made to resident aliens and the rules applying to a nonresident aliens. The IRS could explain these rules more clearly.

A U.S. citizen pays U.S. income tax on all of their income regardless if the income was earned in the U.S. or in a foreign country. In order to prevent or reduce double taxation the person may be able to claim a foreign tax credit or if due to a tax treaty a lower tax rate may apply.

A resident alien is a person who is foreign born and he or she either has been issued a green card or he or she meets a substantial presence test. That is, the person is living in the U.S. An individual meets the substantial presence test if two requirements are met. First, the individual during the current year has been in the U.S. for more than 31 days. Second, the individual during a 3 year period which includes the current year has been in the U.S. for at least 183 days.

A resident alien is subject to the same income tax laws applying to a U.S. citizen. She or he pays U.S. income tax on all of their income regardless if the income was earned in the U.S. or in a foreign country. In order to prevent or reduce double taxation the person may qualify to claim a foreign tax credit or if due to a tax treaty with a foreign country a lower tax rate may apply.

So, a resident alien who withdraws funds from their IRA is subject to the standard IRA distribution and taxation rules. The IRA custodian/trustee is to have the resident alien complete a standard IRA distribution form. The standard withholding rules apply. The IRA custodian/trustee must withhold 10% of the IRA distribution unless he or she instructs to have a different amount withheld. The resident alien has the right to have no withholding just as any other IRA owner has.

The IRA custodian/trustee will prepare a Form 1099-R to report the distribution(s) just like it does when there is a withdrawal by an IRA accountholder who is a U.S. citizen. A resident alien is not to complete one of the W-8 forms which apply to nonresident aliens. The IRA custodian is not to compete Form 1042-S which is completed for distributions to a nonresident alien.

A nonresident alien is a person who is foreign born and who has not been issued a green card or who has not met the substantial presence test.

A foreigner who is an IRA beneficiary most likely will not meet the substantial presence requirement and so will be a nonresident alien.

A nonresident alien is subject to separate tax and tax withholding rules. In general certain income earned in the U.S. will be subject to a 30% tax rate and withholding rate unless there is a tax treaty with a foreign country providing for a lesser tax rate. A tax treaty may provide that a beneficiary will not need to pay any tax on an IRA withdrawal.

The nonresident alien is required to complete the applicable Form W-8 to substantiate that he or she is a nonresident alien. An IRA custodian must prepare Form 1042-S to report a distribution to a non-resident alien even though the beneficiary has completed Form W-8(BEN) showing there is a tax treaty and that the rate of withholding is 0%.

## SIMPLE-IRA Summary Description — IRA Custodian Must Furnish by September/October 2025 for 2026

What are a financial institution's duties if it is the custodian or trustee of SIMPLE-IRA funds? After a SIMPLE-IRA has been established at an institution, it is the institution's duty to provide a Summary Description each year within a reasonable period of time before the employees' 60-day election period. CWF believes that providing the Summary Description 30 days prior to the election period would be considered "reasonable." The actual IRS wording is that the Summary Description must be provided "early enough so that the employer can meet its notice obligation." You will want to furnish the Summary Description to the employer in September or the first week of October. The employer is required to furnish the Summary Description before the employees' 60-day election period.

IRS Notice 98-4 provides the rules and procedures for SIMPLEs. This notice is reproduced in CWF's IRA Procedures Manual.

The Summary Description to be furnished by the SIMPLE-IRA custodian/ trustee to the sponsoring employer depends upon what form the employer used to establish the SIMPLE-IRA plan.

The employer may complete either Form 5305-SIMPLE (where all employees' SIMPLE-IRAs are established at the same employer-designated financial institution) or Form 5304-SIMPLE (where the employer allows the employees to establish the SIMPLE-IRA at the financial institution of his or her choice).

There will be one Summary Description if the employer has used the 5305-SIMPLE form. There will be another Summary Description if the employer has used the 5304-SIMPLE form. If you are a user of CWF forms, these forms will be Form 918-A and 918-B.

The general rule is that the SIMPLE-IRA custodian/ trustee is required to furnish the summary description to the employer. This Summary Description will only be partially completed. The employer will be required to complete it and then furnish it to its employees. The employer needs to indicate for the upcoming 2026 year the rate of its matching contribution or that it will be making the non-elective contribution.

The employer also needs to set forth whether or not Roth SIMPLE-IRA contributions may be made and whether or not the standard SIMPLE-IRA contribution limits are modified.

In the situation where the employer has completed the Form 5304-SIMPLE, the IRS understands that many times the SIMPLE-IRA custodian/trustee will have a minimal relationship with the employer. It may well be that only one employee of the employer establishes a SIMPLE-IRA with a financial institution. In this situation, the IRS allows the financial institution to comply with the Summary Description rules by using an alternative method.

To comply with the alternative method, the SIMPLE-IRA custodian/trustee is to furnish the individual SIMPLE-IRA accountholder the following:

- ✓ A current 5304-SIMPLE — this could be filled out by the employer, or it could be the blank form
- ✓ Instructions for the 5304-SIMPLE
- ✓ Information for completing Article VI (Procedures for withdrawal) (You will need to provide a memo explaining these procedures.)
- ✓ The financial institution's name and address.

Obviously, if an institution provides the employee with a blank form, he/she will need to have the employer complete it, and, the employee may well need to remind the employer that it needs to provide the form to all eligible employees.

CWF has created a form which covers the "alternative" approach of the Summary Description being provided directly to an employee.

The penalty for not furnishing the Summary Description is $50 per day.

Special Rule for a "transfer" SIMPLE-IRA.

There is also what is termed a "transfer" SIMPLE-IRA. If your institution has accepted a transfer SIMPLE-IRA, and there have been no current employer contributions, then there is no duty to furnish the Summary Description.

**Continued on page 5**

Summary Description,
Continued from page 4

If there is the expectation that future contributions will be made to this transfer SIMPLE-IRA, then the institution will have the duty to furnish the Summary Description.

Reminder of Additional Reporting Requirements

The custodian/trustee must provide each SIMPLE-IRA account holder with a statement by January 31, 2026, showing the account balance as of December 31, 2027, (this contribution and distribution is the same as for the traditional IRA), and include the activity in the account during the calendar year (this is not required for a traditional IRA). There is a $50 per day fine for failure to furnish this statement (with a traditional IRA, it would be a flat $50 fee).

## Is it Still Possible to Establish a SIMPLE-IRA Plan for 2025?

Yes, if the sponsoring business has never sponsored a SIMPLE-IRA Plan before and if the business has not made any contributions for 2025 to another type of retirement plan (e.g. profit sharing plan or SEP).

A person or business can set up a SIMPLE-IRA plan effective on any date between January 1 and October 1 of a year, provided it did not previously maintain a SIMPLE-IRA plan. This requirement does not apply if there is a new employer that comes into existence after October 1 of the year the SIMPLE-IRA plan is set up and you set up a SIMPLE-IRA plan as soon as administratively feasible after you come into existence. If it previously maintained a SIMPLE-IRA Plan, it can set up a SIMPLE-IRA plan effective only on January 1 of a year. A SIMPLE-IRA plan cannot have an effective date that is before the date you actually adopt the plan.

IRS Rollover Chart,
Continued from page 6

Roth IRA distribution which is rolled over to a traditional, SEP IRA, SIMPLE-IRA or Roth IRA.

It does not apply to distributions from any non-IRA plan.

It does not apply to distributions from a traditional IRA, SEP IRA or SIMPLE-IRA which is rolled over to a qualified plan, 403(b) plan or governmental 457(b) plan.

4. Funds within any non-SIMPLE-IRA or any plan are now eligible to be rolled over into a SIMPLE-IRA if the 2-year requirement has been met.
5. SIMPLE-IRA funds may be distributed and rolled over into any other type of plan only if such rollover occurs after the 2-year holding requirement has been satisfied.
6. Funds within any of the 4 types of IRAs are ineligible to be rolled over in a Designated Roth account within a 401 (k) , 403 (b) or 457 (b) plan.
7. Funds within a qualified plan, 403(b) plan or governmental 457 plan may be rolled into a Designated Roth account within a 401(k), 403b) or section 457b only if done as an in-plan rollover. Such distribution amount is includible in income.
8. Designated Roth funds may be distributed and rolled over into a Roth IRA or they may be transferred into a Designated Roth account within a different plan. That is, Designated roth funds cannot be withdrawn and then rolled over by the participant.

Observe that there are some special rollovers not discussed by the IRS chart.

1. IRA to HSA direct rollovers.
2. Direct rollovers by both spouse beneficiaries and nonspouse beneficiaries.

Table 1-4. **Rollover Chart**

The following chart indicates the rollovers that are permitted between various types of plans.

| | Roll To | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Roll From** | **Roth IRA[1]** | **Traditional IRA[2]** | **Traditional SIMPLE IRA** | **Roth SIMPLE IRA** | **Governmental 457(b) Plan (pre-tax)** | **Qualified Plan[3] (pre-tax)** | **403(b) Plan (pre-tax)** | **Designated Roth Account (401(k), 403(b), or 457(b))** |
| **Roth IRA[1]** | Yes[4] | No | No | Yes,[4] after 2 years[5] | No | No | No | No |
| **Traditional IRA[2]** | Yes[6] | Yes[4] | Yes,[4 10] after 2 years[5] | Yes[6] after 2 years[5] | Yes[7] | Yes | Yes | No |
| **Traditional SIMPLE IRA** | Yes,[6] after 2 years[5] | Yes,[4] after 2 years[5] | Yes[4] | Yes[6] | Yes,[7] after 2 years[5] | Yes, after 2 years[5] | Yes, after 2 years[5] | No |
| **Roth SIMPLE IRA** | Yes,[4] after 2 years[5] | No | No | Yes[4] | No | No | No | No |
| **Governmental 457(b) Plan (pre-tax)** | Yes[6] | Yes | Yes,[10] after 2 years[5] | Yes,[6] after 2 years[5] | Yes | Yes | Yes | Yes[6 8] |
| **Qualified Plan[3] (pre-tax)** | Yes[6] | Yes | Yes,[10] after 2 years[5] | Yes,[6] after 2 years[5] | Yes[7] | Yes | Yes | Yes[6 8] |
| **403(b) Plan (pre-tax)** | Yes[6] | Yes | Yes,[10] after 2 years[5] | Yes,[6] after 2 years[5] | Yes[7] | Yes | Yes | Yes[6 8] |
| **Designated Roth Account (401(k), 403(b), or 457(b))** | Yes | No | No | Yes, after 2 years[5] | No | No | No | Yes[9] |

[1] Roth IRAs include Roth IRAs that receive employer contributions from a SEP plan.
[2] Traditional IRAs include traditional IRAs that receive employer contributions from a SEP plan.
[3] Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[4] Only one rollover in any 12-month period.
[5] After the 2-year period beginning on the date you first participated in a qualified salary reduction arrangement under your employer's SIMPLE IRA plan.
[6] Must include in income.
[7] Must have separate accounts.
[8] Must be an in-plan rollover.
[9] Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[10] Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, go to *Tax Information for Retirement Plans*.

## The IRS rollover chart provides the following guidance:

1. You will note the IRS does not have a separate category for SEP-IRAs and Roth SEP-IRAs.

   Footnote 2 explains that a traditional IRA also includes a traditional IRA to which an employer has made a SEP-IRA contribution.

   Footnote 1 explains that a Roth IRA also includes a Roth IRA to which an employer has made a Roth SEP-IRA contribution .

   We believe it would be better if the IRS had separate categories for SEP-IRAs and Roth SEP-IRAs.

2. Roth IRA funds are only eligible to be rolled over to another Roth IRA or a Roth SIMPLE-IRA. They are ineligible to be rolled over to any other type of IRA or any qualified plan, 403(b) plan or governmental 457(b) plan, including a Designated Roth account.

3. The once per year rollover rule applies when there is a distribution from a traditional IRA, SEP-IRA, Roth SEP-IRA, SIMPLE-IRA, Roth SIMPLE-IRA or

**Continued on page 5**

## Considerations When a Hard to Value Asset Is Distributed In-Kind

The IRS reporting of IRA transactions involving hard to value assets is certainly not boring. The email set forth below discusses the reporting applying to the distribution of a worthless hard to value IRA asset to an individual who is age 73 or older. The IRA trustee and the IRA grantor will have a number of considerations.

**Situation/Question. Worthless Security Distribution**

We have a client, over age 73, with a hard to value asset in his portfolio. The last valuation we had reported a valuation of $85,000 (which we were never confident was accurate) and we recently received a new valuation from the company that shows it is basically worthless. Can we just distribute this asset out to him with basically no tax consequence and no reporting? Or how do we proceed? Since it is now worthless we would like to get it out of the account and off our system.

**CWF's Response**

Your IRA grantor is over age 73. Most likely he or she is receiving another distribution which must be reported on a Form 1099-R with a reason code 7. Under the IRS reporting rules all distributions from the same IRA with the same distribution code are aggregated on the same Form 1099-R. The IRA trustee must prepare a separate Form 1099-R if a different reason code applies.

The question is, must another Form 1099-R be prepared with a reason code K or is preparation of a separate Form 1099-R not required as the value is less than $10.00?

The IRS instructions mention that a Form 1099-R is not required to be prepared if the annual distribution amount is less than $10. The IRS encourages an IRA trustee/custodian to file a Form 1099-R even if not required.

The rule requiring preparation of the Form 1099-R is a per person per plan agreement rule and is not a per reason code rule. This means, if he takes a reason code 7 distribution from his IRA plan agreement and it exceeds $10 and he is also distributed the hard to value asset from this same IRA plan agreement, then the IRA trustee must prepare two separate Form 1099-R's. This is so even though the value of the distribution of the hard to value asset is $0.00.

If the hard to value asset being distributed was held under one plan agreement and the other hard to value assets under a different plan agreement, the approach of not preparing a Form 1099-R for a distribution of a worthless asset would be possible.

Is the issuer still in business? Any bankruptcy action? What chance for recovery?

This situation does present some good tax planning opportunities for the individual. He or she should want to take a distribution when the value has decreased greatly. But there is also a great opportunity for aggressive tax results when a hard to value asset is distributed from an IRA with no value or with minimal value. For example, the stock or debt instrument is distributed with a near $0.00 value but there is some possibility the asset value might rebound. The individual wants the rebound to occur after the asset has been distributed from the IRA. The individual will be able to pay capital gain tax on the increase in value assuming the time requirements are met, but the taxpayer is not required to pay ordinary income tax as is the rule for IRA distributions.

We suggest receiving a written instruction from the IRA accountholder that he or she requests the in-kind distribution and that he or she agrees with the indicated distribution value.

From the IRS viewpoint, we can see the IRS arguing (and maybe bank regulators) why not continue to maintain the asset in the IRA as the value can only go up. One can argue that the distribution of this asset will make the administration of the IRA less complicated and less expensive. The individual can argue, it is in my best interest from a tax planning standpoint to withdraw it from the IRA when the value has decreased and to save on administrative expenses.

# IRS Issues 2026 Indexed Amounts for HSAs

The HSA contribution limits for 2026 are $100 higher for single HDHP coverage and $200 higher for family HDHP coverage. The Treasury Department and Internal Revenue Service issued new guidance on the maximum contribution levels for High Deductible Health Plans (HDHPs) that must be used in conjunction with HSAs. The 2026 limits are set forth in Revenue Procedure 2025-19 as issued by the IRS on May 1, 2025.

### Maximum Contribution Limits Under Age 55

| | 2024 | 2025 | 2026 |
|---|---|---|---|
| Single HDHP | $4,150 | $4,300 | $4,400 |
| Family HDHP | $8,300 | $8,550 | $8,750 |

### Maximum Contribution Limits Age 55 & Older

| | 2024 | 2025 | 2026 |
|---|---|---|---|
| Single HDHP | $5,150 | $5,300 | $5,400 |
| Family HDHP | $9,300 | $9,550 | $9,750 |

### HSA Catch-Up Contributions

| | 2024 | 2025 | 2026 |
|---|---|---|---|
| Age 55 and Older | $1,000 | $1,000 | $1,000 |

### High Deductible Health Plans

| | Minimum Annual Deductible | | | Maximum Annual Out-of-Pocket Expenses | | |
|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2024 | 2025 | 2026 |
| Single Coverage | $1,600 | $1,650 | $1,700 | $8,050 | $8,300 | $8,500 |
| Family Coverage | $3,200 | $3,300 | $3,400 | $16,100 | $16,600 | $17,000 |