WEALTH MANAGEMENT **ADVISOR**

HOW YOUR CHILD MIGHT BENEFIT FROM OWNING A 530A ACCOUNT

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How your child might benefit from owning a 530A account

The One Big Beautiful Bill Act created Section 530A accounts, also known as "Trump accounts." These accounts are essentially restrictive IRAs for children under 18. They can complement but generally don't substitute for other types of education savings vehicles (see "Other ways to save for your child's future" on page 3). Should you incorporate a 530A account into your child's comprehensive savings plan? Here are answers to a few common questions.

Who's eligible?

A 530A account is a custodial, tax-advantaged IRA opened by a parent or guardian for an eligible child under 18. Children are eligible if:

- They're U.S. citizens with a Social Security Number (SSN),
- They won't turn 18 in the year the account is opened,
- They aren't already beneficiaries of this type of account, and
- The parent or guardian opening the account has an SSN or individual tax identification number.

These accounts generally have two important advantages over traditional IRAs: 1) you can contribute to an account even if your child has no earned income; and 2) the federal government will contribute $1,000 to accounts opened for children born from 2025 through 2028.

Who can contribute?

Contributions can come from several sources, including individuals (for example, parents and grandparents), employers and certain charitable organizations. In addition, children born from 2025 through 2028 are entitled to $1,000 in government "seed money." Total contributions can't exceed $5,000 per year (adjusted for inflation after 2027), but government seed money and qualified charitable contributions don't count toward this limit.

Individual contributions are after-tax (meaning that they're not deductible). However, contributions can be withdrawn tax-free and earnings accumulate tax-free until they're withdrawn, at which point they're taxed as ordinary income.

Accounts can also be funded by employer contributions and employee salary deferrals. Employers are allowed to contribute up to $2,500 per year per employee (not per child) to their workers' 530A accounts. And, if an employer's benefit plan allows, employees can redirect a portion of their salaries into their children's accounts. Combined employer and employee contributions are limited to $5,000 per year per child. These contributions are made on a pre-tax basis, so withdrawals of these contributions and their earnings are taxable.

Charitable contributions qualify so long as they're made to all members of a specified class of beneficiaries, such as all 530A account holders in a certain geographical area or born in a specified year or period of years. These contributions, together with earnings, are taxable when withdrawn.

How are contributions invested?

Until the calendar year in which a beneficiary turns 18, investment choices are strictly limited. Accounts can't use leverage or hold investments with expense ratios higher than 0.10%. But they *can* invest in mutual funds or exchange-traded funds (ETFs) that track the S&P 500 or other qualified indexes consisting primarily of U.S. equities.

Subject to these limitations, account trustees may offer a menu of investment options. Then families may allocate their investments among these options.

How are distributions treated?

Distributions are generally prohibited before the calendar year in which a beneficiary turns 18. Starting that year, distributions are subject to the same rules as traditional IRAs. Withdrawals are at least partially taxable and subject to a 10% penalty if taken before age 59½, with exceptions for certain education, first-time home purchase, birth and adoption or medical expenses.

Keep in mind that distributions to children under age 19 (age 24 for dependents who are full-time students) are subject to the "kiddie tax." This means distributions of more than $2,700 (in 2026) are taxed at the *parents'* marginal rate. Also, although earnings are always taxable, the taxability of contributions depends on their source, so it's important to keep accurate records.

When a beneficiary turns age 18, there are several options. A beneficiary can keep the account as a 530A account (generally subject to traditional IRA rules), roll over the funds into a traditional IRA or other retirement account, or convert the account to a Roth IRA.

OTHER WAYS TO SAVE FOR YOUR CHILD'S FUTURE

Although a 530A account may have a place in your financial plan, other vehicles can be more effective, depending on your objectives. For example, if paying for higher education is your priority, 529 plans and Coverdell Education Savings Accounts offer tax-free withdrawals for qualified educational expenses. In addition, 529 plans offer generous contribution limits.

If helping your child save for retirement is your goal (and your child has earned income), a custodial Roth IRA, which offers tax-free withdrawals in retirement, may be ideal. For other major expenses, UTMA and UGMA accounts have no annual contribution limits, although these accounts are taxable. Taxing earnings each year may be advantageous if all or most of your child's income falls into the zero tax bracket.

Role in your financial plan

A variety of tools are available to save for your children's future. So you should think of 530A accounts as a potential supplement to those. However, if your children are born between 2025 and 2028, it pays to at least open an account to take advantage of the $1,000 in government seed money.

You can open an account by filing Form 4547 with the IRS or by using the online tool available at trumpaccounts.gov. Your advisors can help you choose the right savings vehicles for achieving your goals. ■

There's more than one way to get into a Roth IRA

Even if you've been shut out from opening a Roth IRA due to income restrictions, you may still be able to enter through another door. Higher-income earners can't contribute directly to Roth IRAs, but they can generally convert their traditional IRAs to Roths. This "backdoor" strategy may be appealing if you expect your income tax rate to be higher in retirement, want to keep your investments growing tax-free beyond age 73 or leave these assets to your heirs.

First things first

First, determine whether a Roth is right for you. Traditional IRA contributions are deductible (made with pre-tax dollars), while withdrawals of both contributions and investment earnings are taxable. Withdrawals of contributions or earnings before age 59½ are subject to a 10% penalty.

Roth contributions, on the other hand, are taxed up front (they're nondeductible), but qualified withdrawals of contributions and earnings are tax- and penalty-free. Generally, you can withdraw direct contributions anytime and backdoor contributions after a five-year waiting period. To avoid taxes and penalties on withdrawn earnings, you must be at least age 59½ and the Roth IRA must be at least five years old.

Roth IRAs usually benefit individuals with higher income tax rates in retirement. Also, Roth IRA participants don't need to take required minimum distributions (RMDs) at age 73 as traditional IRA participants do. As long as you (or your spouse) have earned income, you can allow Roth funds to continue growing tax-free, and even continue making contributions.

For 2026, the maximum contribution to a traditional or Roth IRA is $7,500 ($8,600 if you're 50 or older). Roth IRA contributions begin to be phased out when your modified adjusted gross income (MAGI) tops $153,000 ($242,000 for joint filers) and are eliminated altogether when it reaches $168,000 ($252,000).

When it might make sense

The backdoor approach works best if you don't already have a traditional IRA and you're ineligible for deductible contributions. To execute the backdoor strategy, make a nondeductible contribution (within the limit) to a new traditional IRA and then convert it to a Roth IRA as soon as possible. Because your contribution wasn't deductible, the conversion won't be

taxed (except for earnings that accrue before you complete the conversion). Assuming you convert quickly, the tax consequences are virtually the same as a direct contribution.

If you have a traditional IRA with substantial pretax funds, the backdoor technique will have tax costs due to the "aggregation" rule. When you withdraw or convert funds from a traditional IRA, this rule treats all of your traditional IRAs as one big account and allocates the funds among those accounts on a pro-rata basis.

For example, let's say you have a traditional IRA with a $24,000 balance of deductible contributions and earnings. You wish to make a backdoor contribution to a Roth IRA this year. To accomplish this, you make a $7,500 nondeductible contribution to a new traditional IRA and immediately convert it into a Roth IRA.

The conversion is treated as if the funds were withdrawn from all your traditional IRAs on a pro rata basis. You have $24,000 of pretax dollars in the existing IRA and $7,500 of after-tax dollars in the new IRA. In other words, roughly 76% of your aggregate balance ($24,000/$31,500) is pretax. When you execute the $7,500 conversion, $5,700 is taxed as ordinary income. Pretax funds in a 401(k) or other retirement plan won't cause the same problem.

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Your situation

Given the potential costs associated with the aggregation rule, you may want to convert the entire balance of a traditional IRA into a Roth IRA. Although you'll owe tax on all pretax funds in the account in the year of conversion, you'll enjoy the benefits of a Roth IRA from that point forward and make tax-free backdoor contributions in future years.

Every individual's financial situation is different. So talk to your financial advisor to determine whether a backdoor Roth strategy might benefit you. ■

Investing in bonds: 3 types of yield

Bonds or fixed-income investments are often considered "boring" and "safe." That reputation isn't always accurate, but U.S. Treasuries and highly rated corporate and municipal bonds generally play a moderating role in diversified investment portfolios that also include more volatile securities such as stocks. Nevertheless, bonds can be complicated, so it's worth reviewing how they work, especially when it comes to yield.

Multiple definitions

Bonds pay their investors a set amount of interest, typically semiannually, and return the original principal at maturity. Along the way, a bond's price fluctuates. To evaluate

bond performance, investors often are told to compare yields or expected returns. Yet this isn't as straightforward as it sounds because there are multiple definitions of yield:

Current yield. This represents a bond's annual interest payments as a percentage of the price paid for it. If you buy a bond at face value, its current yield and coupon rate are the same. But if you buy a bond at a discount or premium, the two measures diverge.

Current yield reflects the amount of income a bond will generate annually. But it may not be the best gauge of your overall return. It doesn't reflect reinvestment of interest payments or the gain or loss you may realize upon return of principal. If you buy a $100 bond for $85, you'll enjoy a $15 gain when you receive the full face value at maturity (in addition to the current yield). Conversely, if you pay a premium for the bond, you'll experience a loss.

Yield to maturity (YTM). This measure can be valuable to assess a bond's performance over several years or to compare its expected returns to those of other bonds. YTM measures the annual return on your investment based on annual interest payments and the eventual return of principal at maturity. Typically, a calculation assumes that interest payments will be reinvested at the YTM rate. If interest rates change over the life of the bond, your actual rate of return will be different.

If you don't expect to hold a "callable" bond to maturity, YTM is less relevant because it's difficult to predict how much you'll receive or when you'll receive it.

Yield to call (YTC). Borrowers can redeem callable bonds before they mature, on one or more "call dates." Many bonds are redeemable at face value, while some may be redeemed at a premium. Another option is a scaled structure where the bond is redeemable at a premium on the first call date. The call price then declines on each successive call date until it reaches face value.

YTC typically provides the best method of measuring callable bonds. It's calculated in the same way as YTM, except that YTC assumes the bond will be called on the earliest possible date. If the bond isn't called, or if it's called on a later date, your actual return typically will be greater than the YTC. Issuers are likely to call a bond if they believe they can borrow funds at a lower rate than what they're paying on the bond. So, if interest rates have decreased and the call date is soon, YTC is usually more relevant.

Other considerations

Which of these measures is best? It depends on the type of bond you hold. You should also discuss your financial goals — and risk tolerance — with your advisor. Although bonds have historically been less volatile than stocks, it's still possible to lose money investing in them. ■

Augusta rule

Do you qualify for this little-known business tax break?

Are you familiar with a tax break known as the "Augusta rule?" It generally allows homeowners to rent out their primary or secondary residence for up to 14 days per year and exclude the income from their personal tax returns. Executed properly, the Augusta rule also enables business owners to rent their homes to their businesses and shift business income to their personal accounts, tax-free. But strict compliance with the IRS's standards is essential.

3 standards

To qualify for this deduction, first make sure the rental arrangement between you and your business reflects an arm's-length transaction. The amount paid by your business must be consistent with the fair market value for comparable rental spaces in your geographic area.

Second, your business must use your home for ordinary and necessary business purposes. Casual or personal gatherings disguised as business meetings won't withstand examination. Retain copies of meeting agendas, attendee lists and minutes demonstrating substantive business activity. In addition, payment should be made by check or electronic transfer.

Third, strictly observe the 14-day limit. Exceeding it triggers a different tax treatment, requiring you to report rental income — and likely pay tax on it.

Some examples

How might business owners use their residences for qualified business purposes? A small manufacturer, for example, could hold quarterly strategic planning sessions in the owner's primary residence, using the space for executive discussions, presentations and customer development. As long as the four planning sessions take place over 14 days or less per calendar year and the rental rate is reasonable, the IRS is likely to accept this arrangement.

In contrast, take an advertising agency that holds its employee retreat at the owner's vacation home situated on a golf course. The retreat lasts the length of a holiday weekend (three days), but the participants play golf half of that time. Also, the owner accepts $2,500 per day, even though comparable homes are available for $1,000 per day.

Effective execution

Overstating your rental rate, in particular, can invite IRS scrutiny. In 2023, the Tax Court found the rate claimed by owners of an S corporation to be "unreasonable." As a result, it ruled in *Sinopoli v. Commissioner* that the owners had unsuccessfully attempted to use the Augusta rule to pay themselves nontaxable income. To avoid this outcome, speak with a tax professional. Your advisor can evaluate your situation and explain how to execute the strategy effectively. ■