Trump Accounts and the U.S. Territories

September 1, 2026

Trump Accounts are a new type of tax-deferred savings vehicle for the benefit of children, created by the 2025 reconciliation law (P.L. 119-21; also known as the One Big Beautiful Bill Act). Certain individuals can open Trump Accounts on behalf of qualifying children.

Individuals can open accounts on behalf of children who are residents of the territories. Residents of the territories may benefit from Trump Accounts less than residents of the mainland due to differences in eligibility to contribute during adulthood and eligibility for contributions from governments. Limits on allowable investments may also constrain the impact that the accounts have on investment in businesses located in the territories.

Overview of Taxation of Territories

There are five inhabited U.S. territories: Puerto Rico (PR), Guam, U.S. Virgin Islands (USVI), American Samoa (AS), and the Commonwealth of the Northern Mariana Islands (CNMI). Residents of these territories are not generally subject to the tax law of the United States on the income they generate within the territories. Instead, these territories impose their own local tax laws.

The U.S. Internal Revenue Code (IRC) serves as the local tax law in four of the territories. Through a mirror-code system, three territories (USVI, Guam, and the CNMI) substitute their names for the "United States" to give the IRC the proper effect in law. AS is not bound by the mirror system but has adopted much of the IRC for its income tax. PR has its own income tax system that is not based on the IRC.

The U.S. income tax generally applies to income generated on citizens, residents, and corporations of the United States, based upon their worldwide income. However, while bona fide residents of U.S. territories are U.S. citizens or nationals, they are taxed similarly to foreign citizens because their income earned from territorial sources is treated as foreign-source income.

An individual is generally considered a bona fide resident of a territory if they

- meet a physical presence test (e.g., are present in the relevant territory for at least 183 days during the tax year);
- do not have a tax home outside the relevant possession; and
- do not have a "closer connection" to the United States or to a foreign country than to the relevant possession.

Those residing in the territories may still be subject to the U.S. tax code for income generated within the 50 states or District of Columbia. For example, residents of the territories may pay U.S. tax on wages and salaries earned from working in the United States mainland for part of the year, or from investments in U.S. companies.

The IRC also treats companies formed in the territories, including subsidiaries of U.S. companies, as foreign corporations. Income that U.S. companies generate from foreign subsidiaries is included in U.S. income for purposes of U.S. tax. However, such income is both eligible for an exclusion that lowers the effective tax rate applied to it, and a credit for taxes paid in the territories.

Overview of Trump Accounts

Trump Accounts are a new form of traditional individual retirement account (IRA) that the 2025 reconciliation law (P.L. 119-21) created for the benefit of children. Traditional IRAs are tax-advantaged accounts typically for individuals who have income from work to save for retirement. Trump Accounts differ from other traditional IRAs in that they have special rules, described below, that apply prior to the start of the year in which a beneficiary reaches age 18 (i.e., during the account's *growth period*). To qualify, the child for whom the account is opened must have a work-authorized Social Security number.

Contributions during the growth period are generally subject to an annual combined limit of $5,000 in 2026 (adjusted for inflation after 2027), which is lower than the traditional IRA limit ($7,500 in 2026). Such contributions are not limited to the beneficiary's taxable U.S.-source compensation (as is the case for other traditional IRAs), making saving viable for children with little or no income of their own.

During the growth period, beneficiaries cannot deduct contributions from their taxable income, whether those contributions are made by themselves or by others. Any income earned within the account (e.g., investment earnings) will not be taxed until withdrawal, as with other traditional IRAs.

Contributions to Trump Accounts are allowed from several sources. Anyone can contribute to a child's Trump Account, although individual contributions during the growth period are not tax-deductible for either the contributor or the beneficiary. Employers can contribute up to $2,500 per employee, per year (adjusted for inflation after 2027) tax-free to the Trump Accounts of employees or their dependents.

Tax-free contributions known as *qualified general contributions* are also allowed from state or local governments and from 501(c)(3) tax-exempt organizations, provided the state, locality, or organization contributes an equal amount to the account of each child in a qualified group of either (1) all children, (2) all children in a certain geographic area, or (3) all children born in one or more calendar years. IRC 530A(f)(2)(A)(i) explicitly excludes governments of U.S. possessions and political subdivisions thereof from the institutions eligible to give qualified general contributions.

During the growth period, savings in Trump Accounts must be invested in a diversified index fund of U.S. stocks and must minimize fees and expenses. After the growth period ends, contributions and investments follow the same rules as for other traditional IRAs.

Distributions are not allowed during the growth period, except to roll the funds into an ABLE account for disabled individuals. After the growth period ends, distributions follow the same rules as for other traditional IRAs.

The amount of the distribution allocable to post-tax contributions from individuals (the beneficiary, parents, etc.) is exempt from tax. Pretax contributions—including from employers, charities, and the government—are taxable at the time of withdrawal as ordinary income. Investment returns on any contribution are subject to tax.

Distributions before the beneficiary reaches age 59½ may be subject to an additional 10% tax, unless an exception applies, following traditional IRA rules. Exceptions include withdrawals for higher education expenses, for the purchase or construction of a first home (up to $10,000), for birth or adoption expenses (up to $5,000 per child), for emergency personal expenses (up to $1,000 per year), for certain medical expenses, and for certain other uses.

The 2025 reconciliation law also created a new one-time refundable tax credit of $1,000 for each qualifying child, which the U.S. Treasury is to contribute directly to the child's Trump Account once an authorized individual has opened an account on the child's behalf. To be eligible for the one-time tax credit, the child must be a U.S. citizen born between January 1, 2025, and December 31, 2028.

Considerations for Residents of Territories and Trump Accounts

Eligibility and Tax Treatment

There is no prohibition on residents of the territories opening a Trump Account on behalf of a beneficiary child who is also a resident of the territories. The beneficiary must have a work-authorized Social Security number, which residents of the territories generally possess.

As with residents of the mainland United States, beneficiaries of Trump Accounts in the territories can defer tax on the income generated within the account until it is withdrawn. Once the growth period ends (i.e., after the start of the year in which the beneficiary turns age 18), the beneficiary will be able to deduct contributions to their Trump Account as they can with traditional IRAs. Also like other traditional IRAs, contributions after the growth period are limited to the beneficiary's annual U.S. source compensation, meaning they must have compensation in the United States mainland to make such contributions. Additionally, any deduction available from such contributions is meaningful only if the beneficiary has sufficient taxable income in the United States mainland against which to deduct it.

Tax-Advantaged Contributions

Trump Accounts opened on behalf of a resident of the territories may have less access to tax-advantaged contributions from government sources than residents of the United States. Territorial governments (and their subdivisions) are not eligible to make qualified general contributions. Such governments can still contribute to Trump Accounts, but these will be ordinary contributions that count toward the annual contribution limit to the recipient accounts.

In addition, only accounts held in the names of U.S. citizens qualify for the $1,000 federal pilot contribution program. While most residents of the territories are automatically U.S. citizens at birth, children born in American Samoa are not, and are therefore ineligible for the $1,000 federal pilot contribution.

Eligible Investments

The investment restrictions on Trump Accounts have implications for the territories. For these purposes, a U.S. company is only one organized in the 50 states and the District of Columbia. As such, companies organized in the territories (including subsidiaries of U.S. companies that are organized in the territories) cannot be included in an index fund eligible for investment from funds in Trump Accounts.

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