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How does the SECURE Act impact me?

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The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law on December 20, 2019. The SECURE Act primarily revamped rules for qualified retirement plans, IRAs, and reenacted some expired tax breaks. Consider discussing the following highlights with your advisor to determine how the new law affects your financial plan. Also, read our supplementary whitepapers for optimal strategies to navigate this new legislation.

Most retirement accounts (IRAs/401ks, etc.) inherited by a non-spouse must be distributed by the end of the 10th year following the account owner's death. This part of the Act is likely the most detrimental to taxpayers. Under the previous rules, a non-spousal beneficiary could potentially stretch inherited IRA distributions over their remaining life which could be greater than 10 years.

However, a few designated IRA beneficiaries are exempt from the new mandate. Spouses, individuals not more than 10 years younger than the decedent, disabled or chronically ill individuals, and minor children follow the prior distribution rules. *Although, the 10-year distribution requirement is enforced once a minor reaches the age of majority.*

Caution: If you named a trust as a beneficiary of a retirement account, meet with your attorney to discuss the ramifications of the SECURE Act. Potential adverse tax consequences may lurk depending on the trust type and the wording of the trust document. Further, it is unclear if the designated beneficiaries mentioned above can avoid the 10-year distribution period if a trust for their benefit is named instead of them outright. The IRS will hopefully release guidance on this matter.

Strategic Roth IRA conversions, partial spousal disclaimer of inherited retirement accounts, naming charities as beneficiaries, and distribution planning may be some strategies to mitigate the new inherited RMD burden. The new inherited account rules go into effect for accounts inherited after December 31, 2019. Keep in mind, inherited Roth IRAs/401ks are already subject to RMDs but will generally retain their tax-free treatment. Thus the 10-year distribution period applies unless exempted as discussed above.

Required Minimum Distributions (RMDs) begin at age 72 instead of 70.5. This part of the law applies to distributions required to be made after December 31, 2019 in respect to individuals who attain age 70.5 after such date. Thus, if you turn 70.5 before the end of 2019, you will still be required to take and continue RMDs under the previous rules. It is unknown if the Life Expectancy Tables will be adjusted. Our assumption is once a taxpayer attains age 72, they will use the expectancy factor from the current tables for that age.

However, delaying IRA distributions until age 72 may not be prudent depending on the size of your tax deferred assets and if you have other non-IRA accounts. Instead, early IRA distributions/Roth IRA conversions may be more beneficial as a component of a tax efficient blended withdrawal strategy during retirement.

The age limit to make IRA contributions was removed. Beginning in 2020, you can contribute to IRAs after age 70.5 (prior age limit) if you have compensation income equal to your contribution. Spousal IRA rules apply as well.

The age to begin making Qualified Charitable Distributions (QCDs) remained 70.5. You can still send funds from your IRA directly to a charity and not record the distribution (up to $100K) in your income. However, since taxpayers can now make tax deductible IRA contributions after age 70.5, QCDs must be reduced by the aggregate tax-deductible IRA contributions made after age 70.5. Any remaining unqualified charitable distributions could potentially be taken as an itemized tax deduction. Thus, be careful in making QCDs and contributing to IRAs concurrently.

Children's unearned income will be taxed at parent's marginal income tax rate. The Tax Cuts and Jobs Act (TCJA) of 2017 imposed trust tax brackets on the unearned income of children. This short-lived rule was nullified by the SECURE Act beginning in 2020. Although, you can elect to apply the SECURE Act rules to the 2018 and 2019 tax years.

Certain tax breaks are retroactive to the 2018 tax year and effective until 2020. A few of the reprised tax breaks are as follows, mortgage insurance premium deduction, qualified tuition deduction, medical expense itemized deduction in excess of 7.5% of AGI instead of 10%, gross income exclusion for the discharged debt of primary residence, and certain incentives for economic/energy production/green initiatives.

Consider reviewing your previously filed tax returns with your tax advisors to see if you should amend your prior filings.

529 funds can be used for student loan payments. A maximum of $10K may be withdrawn tax-free from a 529 account and applied towards the principal or interest of a qualified education loan of the designated beneficiary. Further, a separate $10K limit will apply to qualified loan repayments for siblings of the designated beneficiary. The effective date is January 1, 2019.

Up to $5K can be distributed penalty free from an IRA or other Qualified Plan for a qualified birth or adoption. Distributions must be made within one year after the date of the birth or finalized adoption. It does not appear that a distribution must match a certain expense. You could potentially recontribute $5K back to your qualified accounts. This could be another income tax free loan loophole like an indirect 60-day rollover. This is effective in 2020 but more guidance will likely be issued.

Enhanced benefits for businesses that sponsor a retirement plan for employees. It may now be more cost effective for small businesses to start a retirement plan due to the passage of the SECURE Act. If you own a small business and do not have a qualified plan, contact Frontier to determine which plan is suitable for your company. Also, read our whitepaper entitled, *Retirement Plans for Business Owners.*

Below are a few of the qualified retirement plan alterations.

- (Year 2020) A small business may establish a new defined contribution plan and potentially receive a maximum tax credit up to $5,000 for three years.
- Retirement plan fiduciaries may receive limited liability if they offer a lifetime income provider (annuity) as an investment alternative.
- (Year 2020) Retirement plans may automatically enroll deferrals up to 15% of participants' pay.
- (Year 2020) Employers could potentially receive a tax credit up to $500 for adding an automatic enrollment feature.
- (Year 2021) Employers have lower obstacles to join a Multiple Employer Retirement Plan to help defray administration costs.
- (Year 2020) Employers can adopt all 100% employer funded plans as of the due date (including extension) of the corporate tax return instead of the calendar year end.

Even though the SECURE Act of 2019 was not as massive as the TCJA of 2017, several amendments will have a meaningful impact on retirees and taxpayers. Feel free to reach out to your advisor to discuss your specific situation.

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