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HOW WILL THE SECURE ACT AFFECT YOU?

THOUGHT LEADERSHIP PERSPECTIVES

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DECEMBER 2019 NOT ONLY BROUGHT HOLIDAY CHEER, BUT ALSO UPDATES TO THE INDIVIDUAL RETIREMENT PLANNING & TAX LANDSCAPE.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is one of the biggest pieces of legislation regarding retirement plans in recent memory. As with any update to the tax and retirement planning landscape, it's important to review your particular situation to understand the potential effects of these changes. Among the provisions of the SECURE Act, there are a few that deserve special attention.

1) DISTRIBUTIONS FOR BENEFICIARIES OF QUALIFIED RETIREMENT PLANS:

Under previous law, beneficiaries were able to distribute qualified retirement plans over their lifetime (known as 'Stretch IRAs'). The SECURE Act requires non-spouse beneficiaries, in most cases, to distribute the accounts within 10 years. This is especially important to anyone who has a trust listed as their beneficiary. The law introduces many nuances that are important to explore when it comes to trust beneficiaries. Note that spousal rollovers are still allowed.

This can present opportunities both when crafting your overall estate plan and when inheriting the assets. While overall estate plans should be revisited every few years, the passing of the SECURE Act is a good impetus to review your broader plan. For people with charitable inclinations, this could mean using a charity or Donor Advised Fund as a beneficiary. For those looking to limit the tax burden on their heirs, they could consider Roth IRA conversions.

While the accelerated distribution schedule requires the account to be distributed within the 10-year window, it does not specify how those distributions must be made. This requires the beneficiary to understand how these distributions will impact their tax and cash flow picture each year. For example, if you are a few years from retirement and inherit a large IRA, it may be beneficial to wait until after your retirement, when you may be in a lower tax bracket, to begin taking distributions. On the other hand, if you inherit an IRA while you are in a low tax bracket and expect to be in a higher tax bracket within the next few years, it may be advantageous to begin taking distributions sooner.

2) AGE CHANGES FOR RMDs AND IRA CONTRIBUTIONS

The second provision to note is the update to the age at which Required Minimum Distributions (RMDs) must begin. Previously, distributions were required to begin in the year people turn age 70 ½. Under the SECURE Act, this is now updated to age 72. The Act also removes the age restriction on traditional IRA contributions. In the past, contributions were not allowed after age 70 ½ even if a person had earned income.

3) EXTENSION OF RECENTLY EXPIRED TAX INCENTIVES

The end of 2019 also saw several updates to the individual tax landscape. These updates are mainly extensions of recently expired tax incentives. A few of the more common extenders are highlighted below:

- Restatement of Private Mortgage Insurance (PMI) deduction
- Medical deduction floor adjusted back to 7.5% for 2019 and 2020
- Kiddie Tax brackets revert back to parents' top marginal tax brackets
- Extends the higher education tuition and fees deduction

4) AGE CHANGES FOR RMDs AND IRA CONTRIBUTIONS

- 529 plans can now be used for apprenticeships and to repay up to $10,000 (lifetime) in student loans

WHETHER PLANNING FOR YOUR RETIREMENT, REVIEWING YOUR ESTATE PLAN, REVISING YOUR CASH FLOW STRATEGY, OR DETERMINING THE IMPACT ON YOUR TAX PICTURE, OUR TEAM IS READY TO HELP YOU MEET YOUR FINANCIAL GOALS.

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