2020 Tax Law Changes (SECURE Act)

1. Inherited IRAs eliminated the stretch provision. Non spousal beneficiaries must now withdraw account balance in 10 years.

A. If you inherited an IRA before 2020, you can still stretch the IRA over your lifetime taking annual required minimum distributions.
B. Surviving spouses, minors, and individuals less than 10 years younger than the deceased are exempt from the 10-year rule.
C. The new law encourages the use of Roth IRA conversions during your lifetime, especially if your beneficiaries are high earners.
D. This reinforces the importance of doing a multiyear tax projection to minimize the taxes paid across your lifetime. We do these for our clients and will be reviewing in the new year.
E. Trusts will need to be reviewed or restructured if they are a beneficiary.
F. You may consider a grandchild or younger brother/sister as a beneficiary.

2. Required Minimum Distribution (RMD) age is now 72 (was 70 ½).

A. If you turn 70 ½ this year or beyond, you can wait until you're age 72 for RMDs (we are reaching out to these individuals to revise income plans).
B. Again, this reinforces the importance of tax and income planning that we do for our clients.
C. Determining if you are required to take an RMD is now much easier. No more challenging calendar math (ex: Anyone born in 1950 must take their first RMD in 2022).
D. If you turned 70 ½ before 2020, the old rules still apply.

3.Qualified Charitable Distributions (QCDs) remain at age 70 ½

A. QCDs once aligned with the required minimum distribution age, now QCDs can be made at age 70 ½ from IRAs.
B. Charitable donations are income tax free distributions
C. We often still recommend giving to charity out of an IRA once age 70 ½ is attained. Certain instances do arise to give cash or appreciated securities.

4. Additional Changes

A. Traditional IRA contributions can now be made at any age with earned income. Previous law prohibited individuals contributing into a Traditional IRA once they reached the year they turned 70 ½. This could be a way to add tax deferred money to your portfolio if no retirement plan is available through work.
B. Money in a 529 plan can now be used to payoff student loans (lifetime max of $10,000).
C. 529 plans can now be used for Apprenticeship Programs (a list of certified programs through the Department of Labor can be found on https://www.apprenticeship.gov).
D. SECURE Act makes it more likely that annuity options will become available in 401(k)s and other retirement plans. We rarely if ever recommend annuities due to high costs and lack of flexibility. Let's talk if you are considering this option.
E. Although we would advise using other accounts, an individual can now distribute $5,000 from an IRA or retirement plan as a Qualified Birth or Adoption Distribution. This is significant because it exempts the 10% early withdraw penalty (money is still taxable as income).
F. New law incentivizes small business owners to set up retirement plans by granting a $500 credit for the first 3 years. Let's talk and find the right plan that would be suitable you and your business.

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