

SECURE Act Provisions and What They Mean For You

On December 19, 2019, Congress passed the spending bill, also known as The Further Consolidated Appropriations Act, 2020, H.R. 1865, which President Trump has signed into law. The bill makes changes to retirement plan rules, extends several expired tax provisions and repeals three healthcare taxes among other appropriations for government spending.

The bill also incorporated the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. The Act is designed to encourage retirement savings and to simplify an employer's administrative requirements in order to extend employer-offered retirement plans to more employees.

Retirement Provisions

Required Minimum Distribution Age Increased

The Act extends the age for taxpayers to begin withdrawing from their retirement accounts from age 70 ½ to age 72. Individuals who are expected to turn 70 ½ in 2020 and beyond will now be required to withdraw RMDs April 1 of the year following attainment of age 72. Individuals who turned 70 ½ in 2019 will follow the old rules.

Elimination of the Stretch IRA

Beneficiaries who inherit an IRA or other qualified plan will now have to withdraw all money from the inherited accounts within ten years. Exceptions are provided in cases of a spouse, minor beneficiary, chronically ill or incapacitated beneficiary, or a beneficiary within ten years of age of the original IRA owner. Minor children fall under the exception only until reaching the age of majority.

Elimination of Age-Cap on Contributions to IRAs

The Act now allows contributions beyond age 70 ½ as long as the account owner or spouse has earned income.

Qualified Charitable Distributions (QCDs) Still Allowed at 70 ½

The ability to make Qualified Charitable Distributions from IRAs beginning at age 70 ½ remains intact.

Lifetime Income in Defined Contribution Plans

The Act allows a lifetime income investment that may no longer be held by the plan to be rolled to another qualified plan or IRA and provides employers a fiduciary safe-harbor when selecting lifetime income providers for the plan. Effective for taxable years beginning in 2019.

More Affordable for Small Employers to Start Retirement Plans and Add Auto Enrollment

An employer with 100 or fewer employees may receive an income tax credit for qualified start-up costs for adopting a new plan (up to \$5,000 per year for three years). An additional small employer tax credit equal to \$500 per year for three years is available if the employer adds auto enrollment to an existing plan or if it is included in a new plan. Effective for taxable years beginning after 2019.

Date Extended for Adopting Certain Retirement Plans

Employers have until the due date of the tax return to set up certain employer-funded qualified retirement plans. Formerly, these plans had to be adopted by 12/31 of the tax year.

Expanding Elective Deferrals to Long-term, Part-time Employees

Long-term, part-time employees – defined as those who have worked at least 500 hours annually for three consecutive years – will be eligible to participate in their employer's 401(k) plan. This will not take effect until plan years beginning after 2020.

Other Provisions

Restatement of Kiddie Tax

The kiddie tax is a tax on a child's unearned income – such as interest, dividends, capital gains. Kiddie tax calculation reverts back to the method used before the Tax Cuts and Jobs Act of 2017 and will be based on the parents' tax rates rather than trust tax rates.

Penalty-Free Distributions for Births and Adoptions

Qualified Birth or Adoption Distributions from IRAs or qualified plans up to \$5,000 are penalty free, but are still considered taxable income unless the funds are repaid.

Use of 529 Plan Funds for Student Loan Repayment

Distributions for Qualified Education Loan Repayments are limited to a per-person lifetime amount of \$10,000. An additional \$10,000 may be distributed as Qualified Education Loan Repayment for each of the 529 plan beneficiary's siblings. Any interest paid from these distributions will be considered ineligible for the above-the-line student loan interest deduction.

Tax Extenders

The Bill also extends many expired tax provisions through 2020 such as:

Discharge of Indebtedness on Principal Residence

A taxpayer can continue to exclude from income a discharge of acquisition indebtedness of up to \$2 million (\$1 million for married taxpayers filing separate returns) on his or her qualified principal residence through December 31, 2020.

Deduction for Qualified Tuition and Related Expenses

The deduction for qualified tuition and related expenses has been extended for tax year 2020. The maximum deduction available is \$4,000 for taxpayers with an AGI of \$65,000 or less (\$130,000 for married taxpayers filing a joint return). This deduction is an above-the-line deduction, meaning the taxpayer can take it regardless of whether he or she itemizes deductions.

Mortgage Insurance Premiums Treated as Qualified Residence Interest

Premiums paid or accrued by a taxpayer for qualified mortgage insurance in connection with acquisition indebtedness for a qualified residence will continue to be treated as qualified residence interest.

Hurdle Rate for Deducting Medical Expenses Remains at 7.5% for 2019 & 2020

Medical expenses must exceed 7.5% of Adjusted Gross Income (AGI) to be deductible on Schedule A.

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