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December 30, 2019

Dear Clients and Friends:

On December 19th Congress passed H.R. 1865, the "Further Consolidated Appropriations Act, 2020", and the President signed it into law on December 20, 2019. This legislation includes the "Setting Every Community Up for Retirement Enhancement (SECURE) Act" that I discussed in my July, 2019 newsletter. This becomes the second trillion-dollar-plus spending and tax bill passed in the waning days of the year (the last being in December 2017.)

I am sending this special tax update ahead of my normal January newsletter, as there are provisions that will impact some taxpayers as soon as January 1, 2020.

The Act as passed by Congress is 715 pages long. My intention is to provide a brief summary of the changes that will impact most clients. Here goes:

CHANGE TO START OF REQUIRED MINIMUM DISTRIBUTIONS

The start date for Required Minimum Distributions (RMD) from a retirement account is currently the year that a taxpayer turns 70 ½.

Under the new law, for taxpayers who turn 70 ½ after December 31, 2019, the start date for RMDs is now 72. To summarize:

- If you were born BEFORE July 1, 1949, you will be over 70 ½ as of December 31, 2019, and your RMD start date remains 70 ½.
- If you were born AFTER June 30, 1949, your RMD start date is now 72. Thus:
    - If you were born between July 1, 1949 and December 31, 1949 your RMD start date is 2021.
    - If you were born in 1950, your RMD start date is 2022.
    - And so on.

This change is estimated to impact about 10% of taxpayers over 70, as that is the number of people who take ONLY their RMD each year (and presumably don't need to take it.) If you are impacted by this delay, it could provide 1-2 more years that you could convert some of your IRA dollars to Roth dollars, before having to take funds out of your IRA.

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CHANGE TO REQUIRED MINIMUM DISTRIBUTIONS FOR INHERITED RETIREMENT ACCOUNTS.

Currently, if you are a non-spouse beneficiary and inherit a retirement account, you are required to take distributions from that account every year to your life expectancy of approximately age 85. At that point the account balance will be zero.

Under the new law, for retirement accounts inherited (with some limited exceptions) from a decedent who dies AFTER December 31, 2019, the retirement account must be COMPLETELY distributed within 10 years. You do not have to take a minimum distribution each year, but by the end of the 10-year period the account must have a zero balance.

This rule applies to IRAs, Roth IRAs, 401k, 403B and similar accounts.

The exceptions to the 10-year payout rule apply to

- Spousal beneficiaries.
- Disabled beneficiaries.
- Chronically ill beneficiaries.
- Children of the decedent who are minors (but ONLY until they are the age of majority, or later if they are still in school, and then the 10 year clock starts.)
- A beneficiary who is not more than 10 years younger than the decedent (e.g. your brother who is 5 years younger than you.)

TRADITIONAL IRA CONTRIBUTIONS

Under current law, a taxpayer who is working past the age of 70 1/2 is NOT permitted to make Traditional IRA contributions. They CAN make Roth IRA contributions.

The new law permits those over age 70 1/2 with earned income to make Traditional IRA contributions. This is not particularly relevant unless the taxpayer makes over $193,000 (married) or $122,000 (single) as taxpayers making less than those amounts would generally be better off making Roth IRA contributions.

TAX LAW EXTENDERS

The law extends certain tax provisions that were scheduled to expire. This includes:

- Reducing the Medical Expense reduction from 10% of AGI to 7.5% of AGI
- Extending the tuition and fees deduction
- Extending the deduction for mortgage insurance premiums

"KIDDIE" TAX

Under current law (as enacted in the 2017 tax bill) certain children under the age of 24 with unearned (investment) income are subject to tax using the very high trust tax rates.

The new law reverses the 2017 tax law change and reverts to prior law, where the unearned income of certain children under the age of 24 will again be taxed at the parent’s tax rate.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

Under current law, a taxpayer over the age of 70 ½ can make a distribution directly from their IRA to a charity and have that distribution count as part of their RMD, but NOT be included in income.

Despite the increase in the age of required first RMD, this provision remains unchanged, so that taxpayers who are over the age of 70 ½ can still make QCDs even though they are not yet subject to RMDs.

IMPLICATIONS OF THE ABOVE

1. Tax returns for 2019 will likely be delayed. The tax software companies will need time to incorporate these changes into the tax software.

2. Rules and regulations need to be drafted, proposed and approved to provide the interpretations needed for many of the changes. This will take time.

3. Provisions in your will and/or trust may need to be changed, due to the new RMD rules. I cannot provide advice on this since I am not an attorney. I advise you to contact your estate planning attorney to see what changes they may recommend.

4. I will continue to review and consider how this legislation will impact my clients. Again, this will be a process and will take time as new impacts become known.

Happy New Year!

Eric
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