



FINANCIAL *Fitness*

The SECURE Act Becomes Law

By McShane Partners President and Wealth Advisor Sandy Carlson, CFP®, CPA, CDFATM

On Thursday, December 19, 2019 the Setting Every Community Up for Retirement Enhancement (“SECURE”) Act passed both the House and Senate and was signed into law by the President. While the changes are not nearly as broad or substantial as the Tax Cuts and Jobs Act (“TCJA”) that was passed two years ago, the new law is mainly intended to expand opportunities for individuals to increase their retirement savings.

While not every section of the legislation can be covered in this article, we have attempted to provide a high-level summary of the more applicable provisions:

New IRA Rules

- Elimination of the lifetime “stretch” provision for non-spouse beneficiaries of inherited IRAs and other retirement accounts, replaced by a 10-year distribution requirement
- RMDs required to start beginning at age 72 (instead of 70 ½)
- Removal of 70 ½ contribution age limit for Traditional IRA

One of the most significant changes made by the SECURE Act is the elimination of the ‘Stretch’ provisions for most non-spouse beneficiaries of defined contribution plans and IRA accounts. Under current law, designated beneficiaries are eligible to stretch distributions over their life expectancy (or in the case of a qualifying trust, over the oldest applicable trust beneficiary’s life expectancy). However, for most designated beneficiaries who inherit in 2020 and beyond, the new standard under the SECURE Act will be the ‘10-Year Rule’. Under this 10-Year Rule, the entire inherited retirement account must be zeroed out by the end of the 10th year following the year of inheritance.

Another change from the SECURE Act involves pushing back the beginning of Required Minimum Distributions (“RMDs”) from age 70 ½ to age 72. Individuals will still be able to delay their first RMD until April 1 of the year following the year for which they must take their first RMD.

Beginning in 2020, individuals of any age will be allowed to contribute to a Traditional IRA, including those who are 70 ½ or older. However, the requirement that such individuals have “compensation”, which is generally earned income from either wages or self-employment to make such a contribution, remains. Therefore, only those individuals who are 70 ½ or older and who are still working, or who have a spouse that is still working, will be able to take advantage of this change.

The SECURE Act makes no changes to the date at which individuals may begin to use their IRAs, and inherited IRAs, to make Qualified Charitable Distributions (“QCDs”). This means that even though an individual turning 70 ½ in 2020 will not have to take an RMD for 2020, they may still use their IRA to make a QCD of up to \$100,000 for the year. This allows for charitable contributions to be made on a pre-tax basis for non-itemizers. Beginning in the year an individual is required to take an RMD, any amounts given to charity via a QCD will also reduce their RMD.

New 401(k) Provisions

- Maximum contribution for 401(k) automatic enrollment increased to 15%

- Part-time employees who work at least 500 hours in at least three consecutive years will be eligible to participate in their employer’s 401(k) plan

Beginning in 2020, the SECURE Act will allow 401(k) plans to increase the default deferral percentage for employees from 10% to as high as 15%. In addition, employees who work at least 500 hours in at least three consecutive years will be eligible to participate in their employer’s 401(k) plan. Under current law, employers can generally exclude employees from participating in a 401(k) if they have not worked at least 1,000 in a single plan year. This leaves many part-time workers, even those who have worked for the employer for several years, unable to participate.

Other Provisions

- Kiddie tax reverts back to parent’s marginal tax rate
- AGI “hurdle rate” for deducting qualified medical expenses to remain at 7.5%

Two years ago, the TCJA changed the nature of the so-called Kiddie Tax, a tax on the unearned income of certain children. Prior to TCJA, any income subject to the Kiddie Tax was taxable at the child’s parents’ marginal tax rate. The passage of TCJA made that income subject to the compressed trust tax brackets, which typically led to a higher tax bill. The SECURE Act reverses TCJA and makes any income subject to the Kiddie Tax again taxable at the child’s parents’ marginal tax rate. The change is effective for 2020, however taxpayers can elect to apply the SECURE Act rules to the 2019 tax year, as well as to 2018. For 2018, the cost of filing an amended return should be carefully evaluated against any potential tax savings that may be achieved.

Congress has also retroactively reinstated and made effective through 2020 the 7.5% AGI ‘hurdle rate’ that must be exceeded to deduct qualified medical expenses.

McShane Partners

WEALTH & INVESTMENT ADVISORY

Investment Opportunities in Small-Cap Equity Overlooked & Out-of-Favor

McShane Partners’ will host their fifth annual portfolio manager panel event, which will feature four tenured small-cap equity portfolio managers sharing their unique views and perspectives on investing in small-cap equity. McShane Partners’ Managing Partner & Chief Investment Officer, Daniele Donahoe CFA, will moderate the panel discussion.

Tuesday, February 25th, 2020
5:30 pm - 7:30 pm
Carmel Country Club

Space is limited. Please contact Lesley Burke directly at either lburke@mcshanepartners.com or (980) 585-3368 to RSVP.