Tax Notes

Bipartisan Retirement Planning Changes Are on the Horizon

By Alan S. Kufeld, CPA, Partner and Leo Parmegiani, CPA, Partner

Divided government? Congressional gridlock? Thankfully, not in all cases.

There is a group of bipartisan leaders in the House and Senate that is focused on making retirement plans and planning for retirement easier for employees and less costly for employers. The goal is to avoid a possible American retirement crisis in the future. Americans are living longer and generally do not have enough saved for retirement. Something has to give; so congressional action is necessary.

Near Unanimous Consent

On May 23, 2019, the House of Representatives voted 417-3 in favor of the ***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***. This Act, if passed into law in its current form, would ease the burden on employees to save for retirement and for employers to enroll and offer these plans to their employees. However, there is still a long road ahead as the bill makes its way through the Senate and ultimately to President Trump for signature.

Some of the provisions of this Act follow.

Increase in Retirement Savings

The SECURE Act seeks to increase retirement savings. Employers would be allowed to increase the automatic 401(k) plan contribution amount to 15% of employee pay from 10%. In addition, long-term part-time workers with at least 500 hours of employment in each of three consecutive years would now be allowed to participate in 401(k) plans. Under current law, employers may exclude employees who work less than 1,000 hours per year. This provision is very important ─ particularly important for working parents who need a flexible work schedule.

Increase in Age for Required Minimum Distribution

In general, once an individual reaches age 70 ½, their required minimum distributions or withdrawals must commence out of their 401(k) and certain IRA accounts. The Act raises the age for the commencement of required mandatory withdrawals to 72, giving individuals that are still working more time to contribute and grow their retirement accounts unencumbered by mandatory withdrawals.

Repeal of Maximum Age for Traditional IRA Contributions

The Act would allow contributions to traditional IRAs after reaching age 70 ½. This is very helpful as more Americans continue to work to the age of 71 and beyond.

New Parents

The Act would allow new parents to make penalty-free withdrawals from their retirement plan up to $5,000 to cover expenses related to an adoption or the birth of a child. Normally, distributions occurring while the account owner is under age 59 1/2, unless an exception applies, triggers a 10% early withdrawal penalty.

The income, however, is still taxable.

This added benefit offers relief to new parents at a time when additional funds are needed.

Modifications to the RMD (Required Minimum Distributions) Rules

Under current law, when a beneficiary inherits an IRA (or a defined contribution plan) from an IRA owner, the beneficiary generally can choose to have the IRA balance distributed to them based on their "younger" life expectancy, which makes maximum use of the IRA's tax-deferred compounding. This allows individuals to potentially stretch-out their IRA distributions over a longer period of time.

Under the SECURE Act, in almost all instances an inherited IRA would have to be fully distributed within 10 years of the original owner's death, closing a loophole that allowed some beneficiaries to stretch out the amount of time they had to draw down on the account over a much longer period. There are likely to be some exceptions to this rule.

This provision is a revenue raiser for the IRS as tax collection would be accelerated.

Other Provisions

- Increased tax credit for retirement plan start-up costs to make it more affordable for small businesses to establish a retirement plan
- Allow more annuities to be offered in 401(k) plans
- Parents can withdraw up to $10,000 from 529 plans to repay student loans and cover costs of private elementary, secondary or religious schools

Contact Us

We will continue to monitor this bill's progress as the legislation makes its way through the Senate. If you have any questions, please reach out to any member of your client service team at PKF O'Connor Davies or contact either of the following tax partners:

Alan S. Kufeld, CPA
Partner
akufeld@pkfod.com | 646.449.6319

Leo Parmegiani, CPA
Partner
lparmegiani@pkfod.com | 646.699.2848

www.pkfod.com