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Tax Notes

The SECURE Act: Changes Affecting IRA Accounts

By Douglas S. Ruttenberg, Partner, Gwendolyn Horn, Tax Manager and Louis F. LiBrandi, Principal

Albert Einstein once said, "The measure of intelligence is the ability to change." Congress must be the most brilliant legislative body around because it has again made a number of tax law changes in the latest year-end appropriations bills.

The "Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019" was approved by Congress and signed by the President on December 20, 2019. SECURE contains a significant number of changes which impact employer-sponsored retirement plans and Individual Retirement Accounts (IRAs). The discussion below will provide information on the most significant changes related to saving opportunities through IRAs. These new provisions are effective beginning January 1, 2020.

How Does the SECURE Act Affect IRAs?

The SECURE Act gives recognition to the fact that life expectancy has increased, and that many Americans are working well past traditional retirement age.

Several changes will create opportunities for IRA owners. The age limit on making contributions has been eliminated, and the age at which distributions must commence has been pushed back.

But, the planning technique – referred to as the "Stretch IRA" – has been severely curtailed.

What Changes Will Impact Account Owners?

Under existing law, plan owners could generally contribute to IRA accounts only until age 70½. Effective for contributions for tax years after December 31, 2019, there will no longer be an age limitation. The requirement that an individual has earned income remains. For individuals working past age 70½ , this change allows for additional tax-deferred savings.

The SECURE Act also changed the rules on distributions from IRAs. Whereas taxpayers previously had to start taking Required Minimum Distributions (RMDs) by April 1 following the year they turn age 70½, that age has now been changed to 72. IRA accounts will have additional time of tax-deferred growth. This change only applies to individuals who have not attained age 70½ by December 31, 2019.

What if I Make Qualified Charitable Distributions (QCDs) from My IRA?

If you continue to make deductible IRA contributions, the amount of the tax-free QCD will be impacted by those post 70½ IRA contributions.

How Will Beneficiaries of My IRA Be Affected by the New Rules?

Prior to this change, non-spouse beneficiaries were required to take RMDs from "Inherited IRAs" over their life expectancy. If an IRA account was left to a considerably younger person than the deceased owner (e.g., a grandchild), distributions could be "stretched" over that grandchild's much longer lifetime, resulting in greater tax deferral and growth potential.

The SECURE Act requires non-spousal beneficiaries of Inherited IRAs who are more than 10 years younger than the deceased owner to fully distribute the IRA within 10 years of the account owner's death. The only exceptions to this rule are for disabled or chronically ill beneficiaries, or for minor children of the account owner. Minor children of the account owner now must receive the entire account balance within 10 years after reaching the age of majority, generally 28 years old.

The new distribution rules are effective for accounts of individuals who die after December 31, 2019.

What Actions Should Taxpayers Take?

If your IRA account balances are modest, the impact of the tax law changes might not be significant. But for those savers with larger account balances (for instance, IRAs that were established via rollovers from an employer-sponsored plan), a review of these changes with your tax professional is recommended.

Review your designated beneficiaries. Consider what is best in your own situation. Instead of leaving an IRA directly to a grandchild, you may be better off naming your spouse as a beneficiary. The assets can be stretched and grow over your spouse's lifetime, and he/she can pass it on to a grandchild. Or consider a plan of scheduled Roth IRA conversions. With a Roth conversion you pay the tax now but future distributions and growth will be tax-free.

Many of these new rules also apply to employer-sponsored retirement plans. Further information on the impact to employer-sponsored plans will be provided in subsequent newsletters.

IRA Reminders for 2019 Taxes

- The maximum IRA contribution is $6,000 for those under age 50 and $7,000 for those age 50 and over by December 31, 2019.
- IRA contributions for 2019 must be made by April 15, 2020.

Contact Us

For questions concerning the changes to IRAs under the SECURE Act, contact your PKF O'Connor Davies tax professionals or:

Douglas S. Ruttenberg, CPA
Partner
druttenberg@pkfod.com | 914.341.7064

Louis F. LiBrandi, EA, CEBS, ChFC, TGPC
Principal
llibrandi@pkfod.com | 646.449.6327

Gwendolyn Horn, CPA, MS
Manager
ghorn@pkfod.com | 914.341.7092

About PKF O'Connor Davies