

January 8, 2020

The recently passed Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) contains numerous provisions which will affect many U.S. taxpayers and their beneficiaries. This legislation took effect January 1, 2020 and focuses primarily on rules governing IRAs and retirement plans such as 401ks. The Act also addresses relevant tax code items such as the 'kiddie tax' and qualified medical expense deductibility. As the SECURE Act is one of the biggest pieces of legislation to impact retirement and financial planning in recent years, we wanted to highlight several key provisions and their respective planning considerations¹:

IRA Related Changes

Rule Change

Lifetime 'stretch' provision for non-spouse beneficiaries of inherited IRA and other retirement accounts eliminated and replaced by a 10 year distribution window

Required Minimum Distributions (RMDs) for IRAs to start at age 72 instead of 70.5

Working taxpayers older than 70.5 can now contribute to IRAs

Planning Consideration

Upends existing income tax planning for non-spouse beneficiaries and creates potentially larger than anticipated tax liability on future IRA distributions. Impacts estate planning strategy and value of Roth IRA/Roth 401(k) accounts

Reflects changing demographic of today's workforce working later in life. Extends planning opportunities around Roth IRA conversions and accelerating other types of income. Note Qualified Charitable Distributions still allowed starting at age 70.5

Removed unnecessary age-based contribution restriction

401(k) Related Changes

ERISA Fiduciary Safe Harbor for selecting an annuity provider within retirement plans

Larger tax credit for small businesses to set up business sponsored retirement plans

Employers may adopt employer-funded retirement plans up to the business tax return due date instead of 12/31 of current year

This will introduce annuity investment options within 401(k) and other defined contribution plans. Annuity option is also portable

Further incentivizes small business owners to establish retirement plans for their employees

Largely benefits small business owners planning for their own tax liabilities

¹ Source: <https://www.congress.gov/bill/116th-congress/house-bill/1865/text>

Miscellaneous provisions and tax extenders

Unearned income for children (kiddie tax) will be taxed at the child's parents' marginal tax rate instead of trust tax brackets. Rules revert to pre Tax Cuts and Job Act of 2017 legislation.	Potential tax savings on unearned income for children as the parents' marginal tax rate is generally lower than trust tax rates. Taxpayers can elect to have these rules apply to 2018 & 2019 tax years as well, but potential tax savings would need to outweigh cost of filing amended tax returns.
Adjusted gross income (AGI) 'hurdle rate' for deducting qualified medical expenses to remain at 7.5%.	Extends lower threshold for deducting qualified medical expenses one more year
Mortgage insurance premiums are deductible	This itemized deduction is reinstated retroactively to 2018 and expires at the end of 2020. This deduction is likely to help relatively few taxpayers as mortgage insurance generally applies to home buyers who put less than 20% down and the taxpayer will need to itemize deductions.

As with all legislation, the SECURE Act will help certain taxpayers and will disadvantage others. Your advisor at Private Capital Management is here to help you navigate the new rules and incorporate them into your financial plan.

These materials were prepared for informational purposes only based on sources deemed to be reliable but which have not been verified. This information is subject to change at any time without notice. You should consult with an appropriately credentialed professional prior to making any investment or financial related decision. Securities held by PCM clients are NOT deposits of, insured or guaranteed by Independent Financial, or any bank or affiliate, are NOT insured by the FDIC or any agency of the United States, and involve INVESTMENT RISK, including POSSIBLE LOSS OF VALUE.