2020 Tax Update

January 2020

SECURE Act Passed: New Rules for IRAs and Beyond

On December 20, 2019, Congress passed a series of year-end spending bills that included a retirement reform bill known as the SECURE Act, as well as other changes to the tax code. Among the changes to retirement plans, the SECURE Act affects Individual Retirement Arrangements (IRAs) and qualified plans (e.g., 401(k) and 403(b) accounts) in the following ways:

- **72 is the New 70½ for RMDs.** Owners of IRAs and qualified plan accounts, who turn 70½ after December 31, 2019, will not be required to start taking Requirement Minimum Distributions (RMDs) from their retirement accounts until age 72, instead of age 70½. However, anyone who turned age 70½ in 2019 would still be governed by the old rule and would need to withdraw RMDs by April 1, 2020. If you haven't attained age 70½ by the end of 2019, this change allows you more time to grow your retirement investments on a tax-deferred basis.
- **No More Stretch IRAs.** Under the new law, if a retirement account owner dies after December 31, 2019, the designated beneficiary must withdraw all assets from the account within 10 years instead of over the beneficiary's lifetime. This change eliminates the much-loved "stretch IRA". Exceptions apply, however, for spouses, minor children, the disabled and chronically ill, as well as beneficiaries not more than 10 years younger than the owner. They can still use their life expectancies when computing RMDs, and a surviving spouse may roll over an IRA to his or her own IRA.
    - The new 10-year rule creates planning opportunities for non-spouse beneficiaries of traditional IRAs (who don't meet any of the exceptions). Beneficiaries subject to this rule can withdraw evenly over 10 years, all in one year, or something in between. As a result, an opportunity exists to take advantage of lower tax rates in years with less taxable income. For example, if a beneficiary expects a year of lower taxable income, he or she can withdraw more from the inherited IRA to take advantage of a lower effective tax bracket in that year. Conversely, he or she can also avoid taking withdrawals in a year with higher than normal income to avoid subjecting the withdrawals to higher tax rates (as long as the entire account is drawn down by the 10-year deadline).
    - In addition, a potential work-around to the lost benefit of the stretch IRA exists by leaving the IRA to a charitable remainder trust, which would extend the time over which assets may grow tax-deferred, albeit at the cost of an ultimate charitable disposition.
- **Age Cap on IRA Contributions Eliminated.** The SECURE Act removes the age cap for traditional IRA contributions, which had been 70½. Effective in 2020, this change would allow older workers to contribute their earned income to a traditional IRA, just as they currently can with a Roth IRA. For those age 50 and older in 2019, the maximum contribution is $7,000 (and $6,000 for those under age 50). The limits remain the same in 2020.
- **Qualified Charitable Distributions Still Allowed for Anyone Age 70½ or Older.** The age for Qualified Charitable Distributions (or QCDs) is still 70½ (not 72). As was the case under prior law, you can exclude up to

$100,000 of an IRA distribution from taxable income by making a direct payment from your IRA to a qualified charity. However, per the SECURE Act, the excludible amount will be reduced by any deductible contributions made to an IRA. Note that a QCD will count toward your RMD for the year.

- **Roth IRAs.** The SECURE Act does not specifically address Roth IRAs or Roth conversions. However, the new rule requiring a 10-year drawdown of an inherited IRA applies both to Roth as well as traditional IRAs. This change reduces the potential for long-term tax deferral after the death of the IRA owner if the designated beneficiary is not a spouse or eligible for any of the exceptions. Anyone considering a Roth conversion should carefully consider the tax consequences and "run the numbers" before doing so.

The SECURE Act also includes other provisions that affect employer-sponsored retirement plans and amends prior law to create some flexibility in a few other areas that may be of interest, such as:

- **529 Plans Expanded.** The SECURE Act expands the use of 529 college savings accounts to allow tax-free withdrawals of up to $10,000 (over the beneficiary's lifetime) to repay qualified student loans and to cover the costs of registered apprenticeships.

- **Kiddie Tax Reinstated.** Prior to 2018, the so-called "kiddie tax" imposed taxes at the parent's rate on the unearned (i.e., investment) income of dependent children. In an effort to simplify compliance with the kiddie tax, the Tax Cuts and Job Act (TCJA) of 2017 replaced it with the same tax regime applicable to trusts. As a result, the unearned income of dependent children would be taxed at the highest bracket starting at only $12,750. However, this change had the unintended effect of imposing high tax rates on graduate students who receive scholarships as well as military survivors who receive government benefits. To alleviate that inequity, the SECURE Act not only restores the pre-2018 rules but also allows taxpayers to elect either taxing regime on their 2018 and 2019 tax returns. Therefore, graduate students and military survivors will no longer be subject to the higher trust tax rates on their scholarships and benefits.

- **Foundation Excise Tax Modified.** Included as part of the Taxpayer Certainty and Disaster Tax Relief Act, enacted along with other year-end spending legislation, was a modification of the excise tax on private foundations. Under prior law, private foundations owed an excise tax of 2% of their net investment income. The rate was reduced to 1% if they distributed at least 1% of their net investment income to charity and met the normal 5% of assets payout requirement. The new rule, which is effective for tax years beginning after December 31, 2019, provides that private foundations will owe an excise tax of 1.39% on their net investment income with no reduced rate for increased distributions.

Time to review your IRA beneficiary designations

The SECURE Act eliminates one of the biggest retirement account planning techniques by limiting the inherited IRA to a drawdown period of 10 years. We encourage everyone, particularly IRA owners, to review existing retirement plans and beneficiary designations and to consider whether they align with their wishes in light of recent changes in the law. This is especially important if a trust is named as the beneficiary of an IRA.

At 1919 Investment Counsel, we stand ready to advise and guide our clients with their planning needs. We invite you to contact your Portfolio Manager or Client Advisor to discuss your retirement and estate plan.

WARWICK M. CARTER, JR
Senior Wealth Advisor

Warwick M. Carter, Jr. is a Principal at 1919 Investment Counsel based in New York. As a Senior Wealth Advisor, his primary focus is generational wealth planning for high net worth individuals and families. He also advises on philanthropic planning. When giving advice, Warwick takes a comprehensive approach to assessing all aspects of a client's tax, financial and family situation. Warwick works closely with Portfolio Managers and Client Advisors in all of our offices to integrate wealth strategies with a client's investments. He regularly meets with outside advisors to devise appropriate solutions that will help grow wealth in a tax-aware way over the long term.

Warwick is a graduate of Denison University and the Columbus School of Law at The Catholic University of America. He also holds a master's in taxation from Georgetown University. He is admitted to the bar in New York and the District of Columbia. Warwick is also a member of the New York State Bar Association and the Society of Trust and Estate Practitioners (STEP).

Email address: wcarter@1919ic.com

LU HAN, CFA, CFP®
Principal, Client Advisor

Lu Han is a Principal and Client Advisor at 1919 Investment Counsel. Her primary focus is financial planning for individuals and families. Lu takes a comprehensive approach to assessing all aspects of a client's financial situation, including retirement planning, goal funding, cash flow analysis, insurance reviews, college savings, and estate planning. She partners with Portfolio Managers to identify and integrate meaningful solutions with investment management, and to interface with clients on a regular basis to provide ongoing financial planning services as a part of the firm's wealth management services.

Email address: lhan@1919ic.com

About 1919 Investment Counsel

1919 Investment Counsel, LLC is a registered investment advisor. Its mission for 100 years has been to provide counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has regional offices across the country in Birmingham, Cincinnati, New York, Philadelphia and San Francisco. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at **www.1919ic.com**.