The SECURE Act Continued

The long-term impact created by the new tax law means the tax on IRAs and other defined contribution plans must be paid much earlier than in the past. For inheritance recipients the tax rate will likely be much higher than in the past, due to the bunching of income during a period when recipients are likely in their peak earning years of ages 55 through 65.

There are alternatives to consider to mitigate the adverse tax consequences of the new law. Keep in mind, there is no one-size-fits-all solution because every family has different incomes, assets, and objectives. The key takeaway is the opportunity to proactively plan to minimize taxes using a variety of tactics.

We've outlined a few possible solutions and welcome a discussion in your next meeting, if you have concerns about the impact of the new law on your IRAs or IRAs you will inherit.

Planning Strategies to Consider:

Review/Adjust Beneficiaries – Rearranging your estate plan to divide IRA assets and non-qualified assets to pay to different beneficiaries could lower the tax bill. For instance, if you have multiple children who will inherit wealth and one is a high earner, the other a low earner, it makes sense to direct the IRA assets exclusively to the low wage earner and direct non-qualified (i.e. non IRA) assets to the higher earner.

Philanthropy – If a portion of your estate will be directed to charity, the IRA funds might be a better choice than other holdings or real estate. This strategy can be implemented during your life or charities can be named as beneficiaries of your IRA.

Trust Planning – Certain types of trusts can be set up to receive IRA distributions, receive a tax deduction, and make distributions over a longer timeframe. This strategy works best when coupled with charitable efforts and could provide substantial tax relief to the recipients of the inherited IRA.

Increasing Distributions – Depending on your current tax bracket, you might be better off distributing funds during your lifetime, paying taxes at your current rate, and passing on non-IRA assets to your beneficiaries. This plan requires family collaboration and a careful analysis of each family member's individual tax situation.

Skipping a Generation – If your children are going to be taxed at high rates and are financially secure without your IRA inheritance, it might be smart to look to the next generation. Depending on their age, grandchildren could receive more favorable tax treatment of the inherited IRA distributions.

Combine Tactics – There's not a one-size-fits-all solution, and the dynamic nature of inheriting money in the future creates a lot of uncertainty. Some of these tactics can be combined, and a wait-and-see approach might provide the most flexibility.

We welcome your questions about the SECURE Act, and we will include the subject in your next review meeting, if it applies to your situation. If you know anyone who might have questions, or if you have relatives who might be impacted, please let us know. We'll do our best to provide you with answers to make informed choices.

The SECURE Act:
What is it, and what to do?

Written by Justin Stevens

The Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, was signed into law on Friday, December 20. We are currently making changes to our systems and internal processes to accommodate the new rules. While the immediate impact of the law changes are favorable to savers and pre-retirees, the long-term implications will require your attention and may necessitate changes to your plans for the transfer of your assets to the next generation.

Here are the major changes created by the new law.

- **Required Minimum Distributions (RMDs) Will Start at Age 72, not 70½**

  Starting January 1, 2020, you will need to start withdrawing money from your traditional IRA at age 72, a change from the current withdrawal requirement of age 70½.

  If you turn 70½ in 2019, you will still need to take your RMD for 2019 no later than April 1, 2020. If you are currently receiving RMDs (or should be) because you are over age 70½, you must continue taking these RMDs. *Only those who will turn 70½ in 2020 or later may wait until age 72 to begin taking required distributions.*

- **You Can Contribute to Your Traditional IRA After Age 70½**

  Beginning in the 2020 tax year, the new law will allow you to contribute to your traditional IRA in the year you turn 70½ and beyond, *provided you have earned income.* You still may not make 2019 (prior year) traditional IRA contributions if you are over 70½.

- **Inherited Retirement Accounts**

  Upon death of the account owner, distributions to individual beneficiaries must be made within 10 years. There are exceptions for spouses, disabled individuals, and individuals not more than 10 years younger than the account owner. Minor children who are beneficiaries of IRA accounts also have a special exception to the 10-year rule, but only until they reach the age of majority.

- **Adoption/Birth Expenses**

  The new law allows penalty-free withdrawals from retirement plans for birth or adoption expenses, up to certain limits.

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