

Tax-Related Provisions of the Further Consolidated Appropriations Act, 2020

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Promises, Promises

Simpler – however, now there are two sets of rules for inherited IRA's

Reduced burdens – but the law will add \$15.9 billion to the treasury over 10 years

Repeals portions of the 2017 reform

Changes provisions from the 2017 reform

Extends provisions ignored by the 2017 reform

Changes nature and goals of IRA savings for the contributor

- No more stretch IRA's
- What happens if the rates change after next year's elections

Roth accounts now more valuable

More life insurance in your future?



Headline issue #1

IRA distributions:

- Required Minimum Distributions (RMD) now required at age 72 and not at age 70 ½ .
- You still have the requirement of paying by April 1st of the following year for the first distribution.
- 2019 requires an RMD if taxpayer turned age 70 ½ in 2019.
- Otherwise follow the age 72 rule beginning in 2020
- Note: Qualified Charitable Distribution (QCD) is based on age 70 ½ - unchanged
- If you are still working, the distribution begins after retirement - except those that are 5% owners.



IRA Contributions transition

Repealed rule prohibiting IRA contributions (regular and non-deductible) after age 70 ½ beginning in 2020.

- If 70 ½ in 2019, no IRA contribution allowed for 2019.
- This over 70 ½ prohibition doesn't apply to Roth IRA, 401k or 403b contributions. IRA contributions still require earned income and other eligibility rules still apply.

New rule coordinating QCD and IRA contributions:

- QCD after 2019:
- exclusion is reduced (but not below zero) by the excess of:
 - 1. Total of all IRA deductions allowed for all tax years on or after obtaining the age 70 ½, over
 - 2. The aggregate amount of QCD's taken in preceding years.
- Result is no IRA deduction and a QCD in the same year.



Headline issue #2

Stretch IRA distributions are now limited to 10 years. This is where the Treasury benefits to the tune of \$15.9 Billion. Gone is the spread of RMD over the remaining life expectancy of the beneficiary. The government wanted these accounts to be retirement accounts and not tax shelters for multi-generational planning. Certain exceptions exist that we'll talk more about. This creates the two rules for IRA beneficiaries; did the deceased die in 2019 and before, or 2020 and after? Those beneficiaries receiving benefits from a 2019 death, are able to use the existing (beneficial) rules. Those beneficiaries receiving benefits from a death in 2020 must now meet the definition of an "Eligible Designated Beneficiary" to claim favored status.



“Eligible Designated Beneficiary”

Stretch Options are still available for:

- Surviving Spouses
- Non-spousal heirs that are less than 10 years younger than the decedent
- Chronically ill individuals
- Disabled individuals
- Minor children (not grandchildren) until they hit the age of majority in their state (18 or 21), then the 10 year rule will become applicable.



Planning Objectives

Maintain income tax deferral

Bracket management within a family

Fulfill charitable goals

Convert ordinary income to capital gain

Manage state income taxes



Strategies

Roth Conversion Pre death:

- 100% of growth is tax exempt.
- No required distributions during life – note that Roth IRA distributions cannot be used to fulfill the RMD from a traditional IRA.
- Owner's tax rate at time of conversion vs. beneficiaries projected tax rates.
- Owner may have favorable tax attributes; credits, carryover or high non-deductible traditional IRA basis.
- Income tax payment before paying possible estate tax.
- Return of higher tax free yields when paying tax from non IRA funds.
- Federal tax brackets are more favorable for married couples.
- Potentially may reduce taxability of social security benefits and may reduce Medicare premiums



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Tax rates for 2020

	Married	Single
◦ 10%	not over \$19,750	not over \$9,875
◦ 12%	\$19,751 - \$80,250	\$9,875 - \$40,125
◦ 22%	\$80,251 - \$171,050	\$40,126 - \$85,525
◦ 24%	\$171,151 - \$326,600	\$85,526 - 163,300
◦ 32%	\$326,601 - \$414,700	\$163,301 - \$207,350
◦ 35%	\$414,701 - \$622,050	\$207,351 - \$518,400
◦ 37%	over 622,051	Over 518,401



Spousal Rollover

This exception to the 10 year payout is only available to surviving spouses. This allows the spouse to roll over assets received as beneficiary to a new IRA in his/her own name. Account is then governed by the spouse's age for the determination of when the RMD begins.

Spouse may use the Uniform Lifetime Table to determine distributions. (Lifetime table may be updated)

Example: “Younger Spousal Beneficiary” Harold who is 85 years old leaves his \$1 million IRA to his younger spouse Miriam who is 55 (and, an “eligible designated beneficiary”). She would be able to keep this account separate so as to take distributions free of any “10% early withdrawal penalty” until age 59½. Then, it could be rolled over into her IRA account with no RMDs until April 1st of the year after she turns 72.



Trusts as beneficiaries

Conduit trust requires all RMD to be distributed to beneficiaries as received.

A Trust is not an Eligible Designated Beneficiary, thus they are subject to the 10 year rule.

If an accumulation trust, the undistributed RMD is subject to income tax by the trust. Beware of the potential for the Distributable Net Income deduction trap.



Other retirement plan changes

Expand retirement savings by increasing the auto enrollment feature

Simplification of Safe Harbor 401k rules

Increase credit limitation for small employer start up costs up to \$5,000

Small Employer Automatic Enrollment Credit new plan credit \$500

Certain payments to graduate and postdoctoral students now eligible for IRA's

No plan loans allowed through credit cards or similar arrangements

Allows long-term, part-time workers to participate in 401k Plans – meaning 3 years of 500 hours. This group of employees will be excluded under the testing provisions and top heavy rules.



Other changes

Penalty free retirement withdrawals for Birth or Adoption \$5,000.

Difficulty of care excluded under section 131 are now eligible for IRA contributions.

529 Plan distributions are now allowed up to \$10,000 lifetime limit per student of qualified student loan repayments (including those for siblings).

Failure to file penalties increased to \$435 from \$210.

Look out for the husband & wife LLC trap – which is now a Multimember LLC requiring a form 1065

Increased penalties for failure to file various retirement plans and various notices.



Kiddie tax no longer based on trust tax rates

- Repeals the Kiddie tax based on trust rate enacted by the tax reform bill in 2017. The Kiddie tax is based on the unearned income (interest, dividends and capital gains) of children under age 19 and full-time students under age 24. The determination of tax has reverted, beginning in 2020, to using the parents marginal income tax rates or by electing to report the kids' income on the parents' return using form 8814.
- The IRS is expected to publish procedures so that taxpayers can elect to apply the new rules (the pre 2018 rules) to income reported in 2018, 2019 or both years.



Taxpayer Certainty and Disaster Tax Relief Act of 2019

a/k/a Tax Extenders Act - most provisions retroactively reinstated for 2018 & 2019, while extending them through 2020.

Is the cost worth amending for the benefit?

The various provisions include:

1. Reduction of medical deduction floor to 7.5%.
2. Exclusion from income for discharge of qualified principal residence indebtedness.
3. Treatment of mortgage insurance premiums as qualified residence interest.



Extenders - continued

4. Deduction of qualified tuition and related expenses. Up to \$4,000 for a married couple whose income doesn't exceed \$130,000.
5. Residential energy property credit of 10% for qualified energy improvements to the building envelope (windows, doors, skylights, and roofs).
6. Residential energy credit of \$50 to \$300 for furnaces, boilers, heat pumps, water heaters, central air conditioning, and circulating fans.
7. Deduction for energy efficient commercial buildings improvements to lighting, heating, cooling, ventilation, and hot water systems.
8. Employer tax credit for paid family leave act for wages paid to qualifying employees – many exceptions and details.
9. Work opportunity credit for employees of one of the 10 targeted groups.



Thank you

We went through hours of information in a few minutes. These topics presented have many tax and non tax implications. This is not legal, tax or financial advice. You should always consult with your tax advisor for the specific impact to your business or your personal situation.

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