FIFTH THIRD PRIVATE BANK

The Impact of the SECURE Act

The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) passed as part of the 2020 Appropriations and Spending Bill in December 2019, and its impact is wide-reaching, particularly as it pertains to taxes. There are several provisions that may have an impact on tax planning and tax liabilities this year and in the future—we've highlighted some of the new provisions below that will impact many individuals.

Contributions to Traditional IRAs
Under the SECURE Act, working individuals who meet the earned income requirements are permitted to contribute to Traditional IRAs past age 70½. Previous IRA contribution rules limited contributions to age 70½ for Traditional IRAs, although there weren't limitations for Roth IRA contributors. This change will allow those with earned income to continue to use Traditional IRAs as a retirement and tax planning tool.

Starting Age for Required Minimum Distributions

Under the SECURE Act, the beginning date for Required Minimum Distributions (RMDs) for Traditional 401(k) and IRA participants is moved from April 1 of the year the individual attains age 70½ to April 1 of the year the individual attains age 72. While this will increase the size of withdrawals since investments can be deferred another year and a half while reducing an individual's life expectancy based on the RMD actuarial charts, taxable income over the year and a half will likely be less without the forced distributions.

Any individual with a qualified retirement account now has an additional year and a half of tax-free growth before they must take a required minimum distribution.

Reduction of Stretch IRAs
Stretch IRAs are an asset transfer technique in which the individual can significantly reduce RMDs on their Qualified Retirement Accounts if a non-spousal beneficiary inherits an IRA. RMDs are calculated by taking the account balance on December 31 of the previous year and dividing that number by the number of years left in the owner's life expectancy (as listed by the IRS's Uniform Lifetime table). Each year, the RMD is calculated by dividing the account balance by the remaining life expectancy. Transferring the balance on Qualified Retirement Plans to a younger generation permits the payment of taxes to be "stretched" out over the lifetime of the beneficiary, thus reducing the tax drag on the account, and allows for the account to continue to grow tax-deferred and in an asset protection vehicle. The younger the beneficiary, the lower the RMD, the longer the stretch benefits.

Under the SECURE Act, the impact of Stretch IRAs is dramatically reduced, if not essentially eliminated. Effective for distributions for an individual who dies after December 31, 2019, RMD rules are modified to require designated beneficiaries to receive the remaining account balance within 10 years after the individual's date of death. Exceptions to the 10-year rule are:

- Surviving spouses;
- Children who have not reached the age of majority;
  - Please note, after the child reaches age of majority, the account must be distributed over 10 years for the child
- A chronically ill individual (specifically defined by the Tax Code); and
- Any other individual who is not more than 10 years younger than the owner.

If one of the exceptions applies, the remaining account balance can generally be distributed over the lifetime expectancy of the beneficiary beginning in the individual's year of death.

For IRA Trust planning, payments from an IRA to a conduit trust will be required to be distributed within 10 years. Clients who plan on leaving their IRAs to their trust should speak to their estate planning attorney, regardless of the trust structure. (Even if the structure made sense before, it may not now.) There are multiple levels of beneficiaries, and each is being accounted for accordingly.

The reduction/elimination of Stretch IRAs may have a profound impact on the individual's asset transfer plans and estate plans. All Qualified Retirement Plan beneficiary designations should be reviewed by the individual as well as their estate planning documents to determine if they are impacted by this change in the SECURE Act and should consider consulting with their Wealth Management Advisor on how to best remedy.

(These changes to Stretch IRAs don't affect what would happen if you leave your IRA to a charitable organization—they never could take the stretch provision, since they are a nonperson. IRAs left to charity avoid federal estate tax, federal and state income taxes, and the charity won't pay taxes on the withdrawals.)

Changes to Qualified Charitable Distributions
Starting at age 70½, individuals can make Qualified Charitable Distributions: They can donate up to $100,000 per year directly from their IRA to a charity, and the amount doesn't count as a tax deduction or taxable income. The QCD can also be used to satisfy an individual's required minimum distribution requirements.

But because the SECURE Act removed the age limit on IRA contributions, there's a new complication: Any QCD amount will be reduced by the cumulative total of post-70½ deductible IRA contributions an individual has made. For instance, if you save $7,000 per year to an IRA at age 71 and 72, and at age 73 you make a $20,000 QCD, your QCD would be reduced to $6,000, and $14,000 would be considered taxable distributions that an individual can take as charitable contributions.

Expansion of Qualified Distributions from 529 Plans
Under the SECURE Act, qualified, tax-free distributions from 529 Plans are expanded to cover costs associated with up to $10,000 of qualified student loan repayments—both principal and interest. Qualified student loan repayments allow such amounts to be distributed to a sibling of a designated beneficiary in addition to the designated beneficiary themselves.

Graduate Student Stipends
If you or a child receive taxable stipends or nontuition fellowships as a graduate or postdoctoral student, it can now be treated as compensation for the purpose of making deductible IRA contributions. Previously, this money did not count as compensation for this purpose. This enables a graduate or postdoctoral child or grandchild to save for retirement.

Small Business Tax Credit for Establishing a Retirement Plan
Employers who establish a qualified employer plan with an automatic enrollment feature are now entitled to a general business credit of $500, and the credit is available for up to three years. Additionally, small employers starting a pension plan may now receive a credit for up to $5,000 for qualified startup costs.

Penalty-Free Withdrawals for Births and Adoptions
Individuals may now take penalty-free withdrawals from qualified plans for birth or adoption expenses for up to $5,000 per child. You must take the distribution within a year after the date of birth or the legal adoption date. The withdrawal is still subject to income taxes, and you can repay the withdrawal to the plan.

Due to the impact these above tax laws (as well as others not discussed) will likely have on your financial future, please consider reaching out to your Fifth Third Private Bank team to determine how you are impacted by the SECURE Act and what steps, if any, need to be taken to mitigate or enhance the impact on your taxes and estate plan.

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