MIDWEST TRUST
FCI ADVISORS

WEALTH PLANNING INSIGHTS

January 2020

THE SECURE ACT: IMPACT FOR IRAS AND SMALL BUSINESSES

In December of 2019, a piece of legislation known as the Setting Every Community Up for Retirement Enhancement (SECURE) Act was tucked into a year-end appropriations bill, passed and signed into law. While portions of the Act touch on an array of other issues, we have summarized those with the largest impact: changes for IRA owners and small businesses.

Required 10-Year Distribution for Inherited IRAs

The most impactful change contained in the Act is certainly the new distribution schedule for inherited IRAs. Previously, recipients of inherited IRAs were generally subject to a Required Minimum Distribution (RMD) schedule that allowed them to "stretch" withdrawals across their life expectancy. Under the new rules, IRAs inherited in 2020 or after must be fully distributed by the end of the 10th year following the year of inheritance. Within that 10 year period, the timing of distribution is flexible.

Exceptions to the new 10-year schedule are made for:

- Spousal beneficiaries, who may continue to roll inherited IRAs into their own name,
- Disabled or chronically ill beneficiaries and individuals within 10 years of age of the decedent, all of whom will remain on an RMD schedule based on their age,
- And minor children, who will remain on the age-based RMD schedule until they reach age of majority, at which time the 10-year distribution window begins.
    - It bears mentioning that this exception is specifically limited to minor children of the original account owner.

How the new 10-year distribution rule will interact with trusts named as IRA beneficiaries is somewhat unclear and may present a planning challenge.

- Specific trust language around "Required Minimum Distributions" could result in large distributions being made in a single tax year - that of the 10th and final year, the only year in which distribution is actually "required" under the new rule.
- Grantors seeking to keep IRA assets in trust beyond the 10-year distribution window will likely see more assets subjected to the compressed trust income tax rates in order to do so.
- Generally speaking, trust language that affords the trustee flexibility to make informed decisions based on situational context will best serve grantors going forward. When designating a trust as your IRA beneficiary, it is best to consult your estate planning attorney.

This change has many investors considering alternative strategies for their IRA assets - specifically Roth contributions or conversions. Roth IRAs are funded with after-tax dollars and, while inherited Roths are still subject to required distribution rules, the distributions are generally tax free.

- If your goal is to minimize the income tax burden on your intended heirs, the accumulation of Roth assets is an effective strategy.
- If your priority is to reduce your current income tax liability or minimize taxes paid during your lifetime, you may be better served remaining in Traditional IRAs.
- Traditional IRAs may also make sense if the account owner is in a significantly higher tax bracket than their intended heirs.
- To the degree that you have charitable intentions, designating a charity the beneficiary of Traditional IRA assets eliminates any concern around the new distribution schedule.

Delay of RMDs to Age 72

The Act also extended the age at which RMDs begin for IRA owners during their own lifetime from 70 ½ to 72. This change applies to IRA owners who will turn 70 ½ in 2020 or after. If you turned 70 ½ in 2019 or before, your RMD's will remain subject to the previous rule.

Interestingly, Qualified Charitable Distributions (QCDs) from your IRA will continue to be allowed beginning at age 70 1/2, even for IRA owners who will not have begun taking RMDs.

Removal of Age Limit to Make Traditional IRA Contributions

Previously, tax deductible contributions to Traditional IRAs were disallowed past age 70 ½. This restriction is lifted in the Act, allowing Traditional IRA owners to make contributions at any age, provided they have sufficient earned income to do so.

- It should be noted that post 70 ½ contributions will be offset against any QCDs made by the same IRA owner.

Tax Credits for Small Businesses

The Act increases the maximum tax credit available for small employers adopting qualified retirement plans from $500 to $5,000. It also establishes a new $500 tax credit for small businesses adding Eligible Automatic Enrollment Arrangements to their existing qualified plans.

Reduced Barriers to Multiple Employer Retirement Plans (MEPs)

While MEPs have been available to small businesses for quite some time, two associated requirements historically made them less attractive.

- Earlier in 2019, the Department of Labor addressed the first by loosening rules that required small businesses participating in a MEP to share significant commonalities.
- The SECURE Act addresses the other barrier by creating functionality that allows the IRS to disqualify one employer from a MEP without disqualifying the entire plan. This affords small businesses more protection when seeking to reduce qualified plan administration expenses by entering into a MEP with other employers.

For more information, or to discuss these changes further, contact your relationship team or any member of our Wealth Planning Group.