

# A 2020 FOCUS ON THE SECURE Act

Near the end of 2019, the US Congress passed, and the President signed a spending bill that avoided another government shutdown. Besides continuing the habit of spending more than the federal government takes in, the bill included several provisions affecting savers and investors. As is also their habit, they gave the bill a catchy name, the SECURE Act (Setting Every Community Up for Retirement Enhancement).

There were several provisions in the Act dealing with savings and retirement plans for businesses, primarily smaller businesses, but we will not go into these here and instead will highlight a few provisions likely to affect most individuals. Please do not view this as a comprehensive summary of the Act's provisions, but only as a few key highlights we think worthy of your notice.

One provision is the repeal of the prohibition of contributions to traditional IRA accounts by an individual who is age 70 ½ or older. This recognizes that American workers are working longer and may want the ability to add to their retirement savings, and take the deduction, into their 70s. This change takes effect for tax years beginning 2020. This change coincides with an extension of the age at which individuals are required to start taking distributions from traditional IRAs. Until now you were required to take a minimum distribution (Required Minimum Distribution or RMD) in the year you turned age 70 ½. This has now been extended to age 72 in recognition of longer life expectancies. This change only affects those who turn 70 ½ after 12/31/2019.

While allowing for additional contributions and delaying RMDs, these changes are being offset by modifications to the rules for inherited IRA accounts. Previously, if you inherited an IRA from a non-spouse, you could take the withdrawals out over your lifetime to maximize the benefits of the tax deferral (commonly referred to as a stretch IRA). The SECURE Act now requires that these balances be fully withdrawn (and taxed) by the end of the 10th year following the IRA owner's death. This does not affect a surviving spouse and a few other exceptions but does materially change the long-term benefits to an inherited IRA and the implications for using the stretch IRA in estate planning.

Back on the plus side, the Act allows for stipends and non-tuition fellowship payments to graduate students that are not treated as income to be used as the basis for IRA contributions, permitting those persons to contribute to an IRA account in the absence of other income. Similarly, the Act permits certain home healthcare workers

who do not have taxable income but receive non-taxable "difficulty of care" payments to contribute to an IRA or other retirement plan.

The Act also includes a provision to permit penalty-free withdrawals for IRA account holders up to \$5,000 for expenses related to childbirth or adoption.

A change affecting education savings expands the permitted uses of 529 account withdrawals to include costs associated with registered apprenticeships and up to \$10,000 for qualified loan repayments. These provisions are at the federal level and any change in treatment for state taxes will have to be addressed at the state level. A side note on the Illinois 529 program is that while federal law allows for the state 529 accounts to be used for certain expenses prior to college, the Illinois program has not been specifically modified to allow for this. The Illinois State Treasurer has stated that it is being reviewed.

The above are only a few points in the recent SECURE Act that we thought to be of note to readers. The above should not be viewed as tax advice and we certainly recommend you review the above with your tax advisor before taking any action.

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