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2020 Retirement Reform & Tax Update

Significant tax or retirement reformation has been infrequent, and yet it has now happened twice in the past two years. We recently experienced the 2018 Tax Reform, and we currently need to decipher the Secure Act and tax extenders and what they might mean in terms of retirement-planning opportunities and challenges. Below are what we consider to be a few highlights that could be applicable to our clients, effective January 1, 2020, in order of importance:

- Age increase for Required Minimum Distributions (RMDs) for Traditional IRAs, from 70.5 to 72.
    - ◊ It is important to note there was not an age increase for Qualified Charitable Distributions (QCDs) from Traditional IRAs; it thus remains at 70.5.
- Elimination of the "stretch" provision for most non-spousal Inherited IRAs.
    - ◊ Instead of having the ability to take RMDs over their life expectancy, non-spousal beneficiaries will now have just ten years to fully distribute the account.
    - ◊ The good news is that RMDs are no longer required each year from these inherited assets. Instead, the account simply needs to be empty by the end of ten years.
    - ◊ These changes apply only to IRA accounts whose owners die in 2020 or after.
- Restriction lifted on making contributions to a Traditional IRA after age 70.5.
    - ◊ Earned income remains a requirement to contribute.
- Other notable provisions and tax extenders:
    - ◊ Qualified education expenses for 529 Plans are now expanded to include student loan repayments (up to $10,000) and apprenticeships.
    - ◊ The kiddie tax reverts children's unearned income to be subject to the parents' marginal tax rate (vs. trust & estate tax schedules).
    - ◊ The Adjusted Gross Income (AGI) hurdle rate for deducting qualified medical expenses is to remain at 7.5% (vs. increasing to 10%).

There have also been some noteworthy increases to maximum contributions allowed for certain qualified savings accounts in 2020:

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- For employer-sponsored retirement plans such as 401k accounts, etc., the increase is from $19,000 to $19,500.
    - ◊ And for catch-up contributions for those age 50 and older, it has gone up from $6,000 to $6,500.
- The limit for contributions to IRAs remains unchanged at $6,000.
    - ◊ The cap for catch-up contributions for those age 50 and older also remains unchanged at $1,000.
- The change is from $3,500 to $3,550 for Individual Health Savings Accounts (HSAs), and from $7,000 to $7,100 for Family accounts.
    - ◊ As a reminder, to be eligible to contribute, you must be participating in a qualified high-deductible health plan (HDHP).

The most significant change on the estate-planning front is the federal estate tax-exemption increase from $11.4 million to $11.58 million. As a result, married couples can now leave over $23 million tax-free to heirs.

The annual gift-tax exemption remains unchanged at $15,000 per year, per individual.

While we at BCWM are not legal or tax professionals, we are always available to work with our clients and their professionals to consider how current laws can have an impact on their investment strategies and plans.

As in years past, clients of BCWM will soon receive additional correspondence from our office regarding important 2019 tax-year information specific to their accounts under our management.