Summary of IRA Changes: SECURE Act, CARES Act and other recent law changes

Below is a summary of the recent law changes that affect IRAs:

SETTING EVERY COMMUNITY UP FOR RETIREMENT (SECURE) ACT (EFFECTIVE 1/1/2020)

The SECURE Act made several changes affecting the required minimum distributions (RMD), beneficiary rules for non-eligible designated beneficiaries and Traditional IRA contributions.

RMDs: The age at which RMDs commence increased from age 70½ to 72 for individuals who turn 70½ on or after 12/31/2019. Those age 70½ before 2020 are still required to take RMDs.

Beneficiary Rules: The ability for a non-eligible designated beneficiary to stretch life expectancy payments over the beneficiaries' life time was eliminated. For deaths occurring after 12/31/2019, the new rules require that the inherited account be distributed in full within 10 years, unless the beneficiary is an Eligible Designated Beneficiary.

- Eligible Designated Beneficiaries include:
  - surviving spouse
  - child of the IRA owner under age 18
  - disabled or chronically ill beneficiary
  - beneficiary who is not more than 10 years younger than the IRA owner
- Eligible Designated Beneficiaries are able to elect to take distributions over their life expectancy beginning in the year following the year of death of the IRA owner. If the beneficiary is a minor child of the IRA holder, the 10 year period to take a full distribution of the account begins when the child turns 18 (subject to an extension until age 26 if the child is pursuing a specified course of education).
- **Estate Planning Pointer:** If your estate plan intended for any IRA or qualified plan balance to be paid to a trust, your trust document may have included a "conduit IRA" provision. This provision may not be appropriate under these new rules. We recommend you discuss these new rules with your estate planning counsel to determine if you need to update your beneficiary designation or trust documents.

IRA Contributions: Traditional IRA contributions can now be made at any age provided there is earned income. Prior to the SECURE Act, no contributions were allowed after age 70½.

Qualified Charitable Distributions (QCD): The QCD rules permit an IRA owner to directly contribute up to $100,000 per year from the IRA to qualified charity and have that amount offset any RMDs for the year and not be treated as a taxable distribution. An IRA owner age 70½ or older can continue to make a QCD in any year, but the QCD amount is decreased by any deductible IRA contribution made after age 70½.

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CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT (EFFECTIVE 3/27/2020) AND IRS NOTICES EXTENDING TAX DEADLINES

Recent IRS Notices and the CARES Act made changes affecting the timing for 2019 IRA contributions, RMD rules for 2020, and the taxation of distributions.

Contributions: 2019 contributions to a Traditional or Roth IRA can be made until July 15, 2020. The 2019 contribution limit is $6,000 if you are under age 50 and $7,000 if you are age 50 and older.

RMDs: 2020 RMDs have been waived. The wavier also applies to life expectancy payments, which are distributions that need to be taken by beneficiaries of inherited accounts. In certain circumstances, it is possible to "undo" a required minimum distribution:

- The RMD must have been taken between February 1st and May 15th, and must be recontributed or rolled over prior to July 15th.
- RMDs taken in January or after May 15th are not eligible.
- Individuals are limited to one rollover to any IRA within the last 12 months.
- Life expectancy payments are not eligible to be rolled over.
- QCDs are still permitted even though RMDs are waived for 2020.

Penalty Free Withdrawals: Individuals impacted by coronavirus may be able to withdraw up to $100,000 from an IRA penalty-free. Eligibility includes:

- Individuals diagnosed with SARS-CoV-2 or COVID-19
- Individuals whose spouse or dependents have been diagnosed or
- Individuals who have experienced adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease or other factors as determined by the Secretary of the Treasury.

Distributions are still taxable; however, income taxes can be spread ratably over a three year period and are not subject to the 10% early distribution penalty. Individuals have the option to recontribute the distribution during the three year period beginning the day after the date the distribution was received and are eligible to receive a refund on some or all of the taxes previously paid.

Estate Planning Pointer – Roth IRA Conversions: A Traditional IRA owner is subject to RMD rules at age 70½ or 72. When funds are withdrawn from the IRA, the amount withdrawn is subject to tax in the year of withdrawal. Funds converted from a Traditional IRA to a Roth IRA are taxable in the year of conversion, but after conversion the funds grow tax free, are not subject to RMD rules and qualified withdrawals are tax free. From an estate planning perspective, beneficiaries would much rather inherit a tax free Roth IRA rather than a taxable Traditional IRA, especially when that inherited IRA must be withdrawn over a ten year period. 2020 may be a good year to consider a Roth IRA conversion, especially if the value of your IRA has declined due to market conditions, your anticipated income for 2020 will be lower and you expect to be in a lower tax bracket in 2020 than in the future. We suggest you consider a Roth IRA conversion if you have the liquidity to pay the income tax on the conversion.

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