

January 2, 2020

New Year Brings New Rules for Retirement Accounts

Estate Planning & Wealth Transfer

Tax Planning & Structuring

The SECURE (Setting Every Community Up for Retirement Enhancement) Act, signed into law on Dec. 20, 2019, brings about major changes for your retirement plans. Below is a brief summary of notable changes that took effect on Jan. 1, 2020:

1. **RMD age increased to 72.** The new law raises the age at which individuals must begin taking required minimum distributions (RMDs) from their retirement accounts from 70½ to 72 for individuals born after June 30, 1949.
2. **IRA contribution prohibition eliminated.** Previously, contributions to an individual retirement account (IRA) after 70½ were prohibited. For taxable years beginning in 2020, individuals with earned income may contribute to an IRA even after turning 70½.
3. **Reduction in charitable distribution exclusion.** Under prior law, up to \$100,000 per year of qualified charitable distributions from a traditional or Roth IRA were excluded from tax. In the year in which an individual attains 70½, and each year thereafter, the \$100,000 exclusion is reduced by the amount the individual contributes to his or her traditional IRA in such year.
4. **Mandatory accelerated distribution of inherited retirement accounts.** Assets of retirement accounts that were inherited in 2019 or earlier could be distributed (and can continue to be distributed) over the individual beneficiary's lifetime. Assets of retirement accounts that are inherited in 2020 or later must be distributed within 10 years of the original owner's death, with exceptions for spouses, minor children, disabled beneficiaries and beneficiaries less than 10 years younger than the original owner.
5. **Penalty-free withdrawals for qualified birth or adoption distributions.** Starting Jan. 1, 2020, new parents can withdraw up to \$5,000 (per parent) from an IRA or employer-sponsored retirement plan to pay for birth and/or adoption expenses during the first year after the birth or adoption without having to pay withdrawal penalties. The amount withdrawn is included in income, but the penalty is waived.
6. **529 plans expanded.** 529 plan assets can now be used to repay up to an aggregate of \$10,000 in student loans without tax or penalty.

More changes: Under the SECURE Act, a change not necessarily related to retirement savings was made to the "kiddie tax" rates. For most children under 19 with unearned annual income greater than \$2,200, that child's unearned income is taxed at special rates. Prior to enactment of the Tax Cuts and Jobs Act (TCJA), the special rates were the parents' tax rates. The TCJA changed the special rates to those applicable to trusts and estates. The SECURE Act restores the pre-TCJA rates for taxable years beginning in 2020. Children whose parents' rates are lower than the rates applicable to trusts and estates in 2018 and 2019 may elect to apply their parents' rates for those years.

If you would like to review how these rules affect your income tax, retirement and estate planning goals, please contact a member of Gould & Ratner's [Estate Planning and Wealth Transfer Practice](#).