Everything You Thought You Knew About Retirement Planning and Your Tax-Deferred Accounts…Just Changed!

Introducing the SECURE Act

Thursday, January 9, 2020

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Providing Comprehensive Retirement Planning Solutions

On December 20, 2019 President Trump signed into law a $1.4 trillion year-end spending bill to keep the government running. This mammoth spending bill included something hidden inside called the **SECURE Act**. It includes sweeping changes to many of the rules and planning techniques we've used for years. This brief paper is to introduce you to a few of the more immediate changes we'll be addressing with our clients in the near future.

1) **RMD (Required Minimum Distribution) Age limits** have changed for people who had not yet reached age 70 ½ by December 31, 2019. If that describes you, you do not have to begin your RMDs until you reach age 72.
    a. If you were age 70 ½ before January 1, 2020, you will still follow the old rules of starting your RMDs when you turn 70 ½.

2) **Upper Age Limit for IRA Contributions has been eliminated.** Until now, once you reached age 70 ½, even though you were still working, you were not allowed to contribute to your IRA account. The SECURE Act eliminated that rule. So, no matter how old you are, as long as you have earned income (from working) you may still make IRA contributions, as well as Roth IRA contributions. Of course, various limits may apply, so be sure you know all of the rules.

3) **Qualified Charitable Contributions (QCDs) are still allowed for anyone who has reached 70 ½ years old.** This is a very tax-effective way to make charitable donations to your church or qualified charity of choice directly

from your IRA. Contributions made that way still qualify as part of your RMD, but you don't have to pay income tax on them. They must be done correctly and paid directly from your IRA to the charity and can't be done even a day before you reach age 70 ½. If you meet this age qualification, you can make Qualified Charitable Distributions (QCDs) in this manner of up to $100,000 total per year.

4) **For those receiving taxable non-tuition fellowship and stipend payments,** you may now count those as compensation (earned income) for purposes of making IRA or Roth IRA contributions.

5) **The Stretch-IRA is gone! One of the most valuable planning tools we've used for years to protect and preserve inherited IRA and Roth IRA accounts for your non-spouse beneficiaries was the Stretch IRA – often used in conjunction with the IRA Inheritance Trust for higher value IRAs and Roth IRAs.** This strategy allowed your children and/or grandchildren to stretch out the distributions from the inherited IRAs and Roth accounts over their lifetimes, which in turn stretched out the payment of taxes on IRAs for the same time. It allowed the remaining funds to stay inside the accounts for additional growth opportunity. And, when used with the IRA Inheritance Trust, it also protected those inherited funds from possible creditors and predators who might seek to take your beneficiaries' inherited funds.
    a. **The SECURE Act completely eliminated the ability to stretch the distributions to those beneficiaries past 10 years.** In other words, the inherited retirement accounts must be completely liquidated by the end of the tenth year. So, the beneficiary could leave the money intact for 10 years, but in the tenth year must take 100% of all funds out of the account. If it is an IRA for example, the full distribution in the 10th year would be taxable at the beneficiaries' highest tax rate at that time. ***Hypothetical example:*** say the account balance is $700,000 at the end of the 10th year. When the beneficiary receives that much money in one year, the beneficiary's highest marginal tax rate might be significantly more than it is today if Congress has raised the income tax rates during the ensuing years. If that happens, the

government could end up receiving a lot more money out of that account than the beneficiary does. Rising future tax rates are certainly possible. (Remember the 70% top marginal income tax rate in 1979?)

b. **We'll be reaching out to our clients who have IRA Inheritance Trusts over the next few months to evaluate changes needed and other strategies that might be beneficial.**
c. **There are EXCEPTIONS to the 10-year distribution rule:**
    i. **Surviving Spouse**
    ii. **Minor Children (not grandchildren)**
    iii. **Disabled Individuals**
    iv. **Chronically Ill Individuals**
    v. **Beneficiaries not more than 10 years younger than the deceased IRA owner.**

These are just a few of the provisions included in the new SECURE Act. We'll be sending out additional information in the future. In the meantime, please feel welcome to give our office a call with questions or to schedule an appointment.

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