

IMPORTANT INFORMATION REGARDING YOUR INDIVIDUAL RETIREMENT ACCOUNT



Several recent law changes have impacted Individual Retirement Accounts (IRAs). Your IRA Plan document cannot be updated to reflect these changes until the Internal Revenue Service releases their version of the language that must appear in your Plan. As your IRA provider, we await technical guidance from the Internal Revenue Service and the Department of Labor in order to administer the enacted provisions. In the meantime, we would like to take this opportunity to provide you with an informational summary to retain with your current IRA plan document.

SECURE Act – Setting Every Community Up for Retirement Enhancement Act of 2019

Repeal of maximum age for traditional IRA contributions

- Individuals will be able to make contributions to their IRA even after attaining the age of 70 ½ (now 72), as long as income is earned.
- Effective for taxable years beginning after December 31, 2019.

Increase in age for required beginning date for mandatory distributions

- The required beginning date for mandatory distributions has been amended from age 70 ½ to age 72.
- This only applies to persons turning 70 ½ after December 31, 2019. Anyone who turned 70 ½ prior to 2020 must begin taking, and continue to take, distributions under pre-SECURE Act rules.

Modification of required distribution rules for designated beneficiaries

- Upon the death of an IRA account owner, distributions of the entire account balance to anyone other than an “eligible designated beneficiary” must generally be made within 10 years of the account owner’s death.
- An eligible designated beneficiary includes the surviving spouse, a child of the IRA account owner who has not yet reached the age of majority (age 21 as defined in IRS regulations), a disabled individual, a chronically ill individual, or an individual who is not more than 10 years younger than the decedent.
- This change eliminates the ability to have “stretch IRAs” by limiting the distribution period for certain beneficiaries.
- Effective for distributions on behalf of IRA account owners who die after December 31, 2019.

Penalty-free withdrawals from retirement plans for individuals in case of birth of child or adoption

- Distributions from a retirement plan, in the case of a qualified birth or adoption, are exempt from the 10% early withdrawal penalty.
- The child must be under 18 years of age, the distribution must be made within the 1-year period after the birth or adoption date of the child, and the distribution exception is capped at \$5,000 per child, per parent.
- These funds may be repaid to the plan by a rollover, and the repayment would be treated as a nontaxable direct rollover (reported as a “repayment”).
- Effective for distributions made after December 31, 2019.

Tax-exempt “difficulty of care payments”, a type of qualified foster care payment to individual care providers under a state Medicaid Home and Community-Based Services waiver program (Medicaid Waiver payments), may be treated as compensation for purposes of making an IRA contribution.

For tax years beginning after December 31, 2019, certain taxable non-tuition fellowship and stipend payments are treated as compensation for the purpose of IRA contributions. Compensation will include any amount included in gross income and paid to aid in pursuit of graduate or postdoctoral study.

CARES Act – Coronavirus Aid, Relief, and Economic Security Act of 2020

The CARES Act provided assistance to the American people from the public health and economic impact of COVID-19. The provisions under the CARES Act were mostly available during 2020, but the highlights are listed here:

- Coronavirus-related distributions - a coronavirus-related distribution (CRD) is a distribution made on or after January 1, 2020 and before December 30, 2020 to a qualified individual from an IRA, qualified plan, 403(b), or governmental 457(b) of up to \$100,000 in the aggregate for any taxable year. A CRD was directly repaid (i.e., rolled over) to any IRA or other eligible plan that accepts rollovers ratably within 3 years. Amounts not repaid could be taxed over a 3-year period.
- The CARES Act provides for 2 special coronavirus-related loan conditions to qualified individuals: 1) increases the amount that can be borrowed; and 2) extends the time to repay an existing loan. Loans are not permitted from individual retirement accounts, however.

Waiver of Required Minimum Distribution (RMD)

All Required Minimum Distributions were waived for the calendar year 2020 under the CARES Act, including for a participant whose required beginning date is in 2020 (e.g. Initial year 2019 RMDs due by April 1, 2020). Beneficiaries required to take RMDs from inherited IRAs were included in the waiver.

The 2020 RMD waiver applied to all IRA owners, not only to qualified individuals affected by COVID-19.

RMDs taken at any point during 2020 could have been rolled back into an eligible plan. IRS notice 2020-51 provided an extension to roll back any RMD taken on or after January 1, 2020 by August 31, 2020 without regard to the 60-day deadline that applies to IRA to IRA rollovers, or the one rollover in a 12-month period restriction.

RMD amounts that were received after August 31st were still eligible for rollover, but were subject to the normal rollover restrictions.

Qualified Charitable Distributions are not affected by the CARES Act. As it relates to the change in RMD age under the SECURE Act mentioned previously, an IRA owner or beneficiary who was age 70½ could still request a QCD even if they did not have a 2020 RMD. Those individuals continue to remain QCD eligible despite the increase in RMD age to 72. See Appendix D in IRS Publication 590-B to determine the correct amount of the QCD.

SECURE 2.0 Act of 2022 (SECURE 2.0)

Continuing the initiatives of the SECURE Act of 2019, SECURE 2.0 Act of 2022 (SECURE 2.0), Division T of the Consolidated Appropriations Act of 2023, was signed into law on December 29, 2022 (date of enactment). Some changes became effective on the date of enactment - or even retroactively, but the Internal Revenue Service and the Department of Labor must provide technical guidance to practitioners and taxpayers for them to be practicable.

Increase in Age for Required Beginning Date for Mandatory Distributions

- The required beginning date for Required Minimum Distributions (RMDs) has been increased from age 72 to age 73 starting on January 1, 2023.
- The Act further increases the RMD age, starting January 1, 2033, from 73 to 75.

Indexing IRA Catch-Up Limit

- Indexes the current \$1,000 age 50 catch-up limit.
- Effective for taxable years beginning after December 31, 2023.

Withdrawals for Certain Emergency Expenses

- Provides an exception for certain distributions used for emergency expenses, which are unforeseeable or immediate financial needs relating to personal or family emergency expenses.
- Only one distribution is permissible per year of up to \$1,000, and a taxpayer has the option to repay the distribution within 3 years.
- No further emergency distributions are permissible during the 3 year repayment period unless repayment occurs.
- Effective for distributions made after December 31, 2023.

Special Rules for Certain Distributions from Long-Term Qualified Tuition Programs to Roth IRAs

- SECURE 2.0 amended the Internal Revenue Code to allow for tax and penalty free rollovers, up to \$35,000 over the course of a taxpayer's lifetime, from any 529 account in their name to their Roth IRA.
- These rollovers are subject to Roth IRA annual contribution limits, but not the income threshold for contributions. To qualify, the 529 account must have been open for 15 years or more.

Remove Required Minimum Distribution Barriers of Life Annuities

- An actuarial test related to certain commercial lifetime annuities in qualified plans and IRAs in the required minimum distribution regulations is eliminated. This will reinstitute certain guarantees for the benefit of individuals who are otherwise unwilling to elect a life annuity under a defined contribution plan or IRA.
- This provision is effective for calendar years ending after the date of enactment of the Act.

Qualifying Longevity Annuity Contracts

- To preserve the intended longevity protection, the 25% limit is eliminated, and the dollar limit is increased to \$200,000.
- In addition, QLACs with spousal survival rights are available, and free-look periods are permitted up to 90 days with respect to contracts purchased or received in an exchange on or after July 2, 2014.

Eliminating a Penalty on Partial Annuitization

- A participant that holds an annuity contract in their retirement account may elect to calculate the Required Minimum Distribution (RMD) by aggregating the value of the annuity with the value of the non-annuitized portion of the account. The annuity contract payments for the year can then be deducted from the combined RMD amount.
- This became effective on the date of enactment of the Act, however, the Treasury Secretary is to update the relevant regulations accordingly. Until then, taxpayers may rely on a good faith interpretations of the law.

Reduction in Excise Tax on Certain Accumulations in Qualified Retirement Plans

- The penalty for failure to take Required Minimum Distributions (RMD) is reduced from 50% to 25%.
- In addition, if a failure to take the RMD is corrected within a 2-year correction period, the excise tax on the failure is further reduced from 25% down to 10% percent. This correction window begins on the tax filing due date for the year the excess occurred, and ends on the earlier of the last day of the second taxable year following such deadline or when the taxpayer is audited.
- Effective for taxable years beginning after the date of enactment of the Act.

Updating Dollar Limit for Mandatory Distributions

- Under current law, employers may automatically roll over former employees' retirement accounts from a workplace retirement plan into an IRA if their balances are between \$1,000 and \$5,000.
- The limit is now increased from \$5,000 to \$7,000, effective for distributions made after December 31, 2023.

One-Time Election for Qualified Charitable Distribution (QCD) to Split-Interest Entity; Increase in Qualified Charitable Distribution Limitation

- Expands the Qualified Charitable Distribution provision to allow for a one-time, \$50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts.
- This is effective for distributions made in taxable years beginning after the date of enactment of the Act.
- In addition, the \$50,000 special distribution amount, as well as \$100,000 overall QCD limit, will be indexed for inflation for distributions made in taxable years ending after the date of enactment of the Act.

Repayment of Qualified Birth or Adoption Distribution Limited to 3 Years

- The recontribution period for distributions made in the case of birth or adoption, a qualified birth or adoption distribution (QBAD), is restricted to 3 years.
- Effective to distributions made after the date of the enactment of the Act, and retroactively to the 3-year period beginning on the day after the date on which such distribution was received.

Penalty-Free Withdrawal from Retirement Plans for Individual Case of Domestic Abuse

- Retirement plans may permit participants to self-certify that they experienced domestic abuse within the past year, allowing the participant to withdraw a small amount of money (the lesser of \$10,000, indexed for inflation, or 50% of the participant's account).
- This distribution is not subject to the 10% tax on early distributions. Additionally, a participant has the opportunity to repay the withdrawn money from the retirement plan over 3 years, and will be refunded for income taxes on money that is repaid.
- Effective for distributions made after December 31, 2023.

Tax Treatment of IRA Involved in a Prohibited Transaction

- When an individual engages in a prohibited transaction with respect to their IRA, the IRA is disqualified and treated as distributed to the individual, irrespective of the size of the prohibited transaction.
- This provision clarifies that if an individual has multiple IRAs, only the IRA with respect to which the prohibited transaction occurred will be disqualified.
- Effective for taxable years beginning after the date of enactment of the Act.

Clarification of Substantially Equal Periodic Payment Rule

- Clarification of what does not constitute a modification of the additional tax on early distributions for the Substantially Equal Periodic Payment (SEPP) rule.
- The exception continues to apply in the case of a rollover of the account, an exchange of an annuity providing the payments, or an annuity that satisfies the Required Minimum Distribution rules.
- This provision is effective for transfers, rollovers, and exchanges after December 31, 2023; and effective for annuity distributions on or after the date of enactment of the Act.

Exception to Penalty on Early Distributions from Qualified Plans and IRAs to Individuals with a Terminal Illness

- Provides an exception to the 10% additional tax on early distributions made to individuals with a terminal illness.
- A physician must certify that the illness is reasonably expected to result in death within 84 months.
- These withdrawals currently have no dollar limitation, and can be repaid to the account in a manner that is similar to qualified birth or adoption distributions.
- The exception is effective for distributions made after the date of enactment of the Act.

Special Rules for Use of Retirement Funds in Connection with Qualified Federally Declared Disasters

- Issues permanent rules that aim to standardize access to retirement funds in the event of a federally declared disaster.
- To be eligible, an individual must have their primary residence in the federally declared disaster area, and sustain an economic loss as a result of the disaster event.
- If eligible, up to \$22,000 can be considered a Qualified Disaster Distribution (or Qualified Disaster Recovery Distribution), taken no later than 180 days after the federal disaster was declared.
- The funds are exempt from the 10% excise tax on early distributions.
- There is a 3 year window following the date of distribution to repay all or a portion of the payment back to an eligible retirement plan. Alternatively, taxes can be spread ratably over a 3-year period.
- A list of federally declared disasters can be found on the Federal Emergency Management Agency website, [fema.org](https://www.fema.org).
- Effective retroactively for disasters occurring on or after January 26, 2021.

Elimination of Additional Tax on Corrective Distributions of Excess Contributions

- Earnings attributable to timely correction of an excess contribution is not subject to the 10% additional tax on early distributions.
- Effective for any determination made on or after the date of enactment of the Act, even if the correction occurred before date of enactment.

Modification of Required Minimum Distribution Rules for Special Needs Trust

- In the case of a special needs trust established for a beneficiary with a disability, the trust may provide for a charitable organization as the remainder beneficiary.
- Effective for calendar years beginning after the date of enactment of the Act.

IRA & Roth IRA Contribution Limits - Cost of Living Adjustments (COLAs)

	2023	2024
Traditional IRA regular contribution limit	\$6,500	\$7,000
Age 50 catch-up limit for traditional IRAs	\$1,000	\$1,000
<i>AGI phase-out ranges for determining traditional IRA deductions for active participants:</i>		
Unmarried taxpayers	\$73,000 - \$83,000	\$77,000 - \$87,000
Married taxpayers filing joint returns	\$116,000 - \$136,000	\$123,000 - \$143,000
Married taxpayers filing separate returns	\$0 - \$10,000	\$0 - \$10,000
Non-active participant spouse	\$218,000 - \$228,000	\$230,000 - \$240,000
Roth IRA regular contribution limit	\$6,500	\$7,000
Age 50 catch-up limit for traditional and Roth IRAs	\$1,000	\$1,000
<i>AGI phase-out ranges for determining Roth IRA regular contributions:</i>		
Unmarried taxpayers	\$138,000 - \$153,000	\$146,000 - \$161,000
Married taxpayers filing joint returns	\$218,000 - \$228,000	\$230,000 - \$240,000
Married taxpayers filing separate returns	\$0 - \$10,000	\$0 - \$10,000