VIEW CAPITAL
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Just before recessing for the holidays, the House and Senate passed the Consolidated Appropriations Act of 2020. On December 20, President Donald Trump signed the bipartisan, year-end government spending and tax package, just hours before federal funding was set to expire. Trump's signature on the over 2,000-page spending package avoided a government shutdown. As often happens with yearend appropriations bills with a looming deadline, a variety of amendments are thrown into the bill in exchange for votes.

In this issue of Panorama, we will summarize some notable tax law changes that will have an impact on individuals and their personal wealth in 2020.

Overview of the SECURE Act

The bipartisan SECURE Act, which cleared the House in May but remained stalled in the Senate most of the year, makes a number of major as well as administrative changes for retirement savings affecting both individuals and employers. Some of those changes are noted as follows:

IRA Changes

- Moving the start date for required minimum distributions (RMDs) to the year the owner turns 72;
- Ending the 70 1/2 age limit for contributions to an IRA; and
- Shortening the distribution period for nonspouse inherited IRAs to a 10-year maximum.

The 10-year window for distributions to a nonspouse beneficiary applies regardless of when the IRA owner dies. Thus, the change will severely limit the use of "stretch IRAs" as an effective tax deferral planning tool. Limited exceptions are available and will be discussed later.

401(k) Changes

- Requiring plans to offer participation to long-term, part-time employees;
- Encouraging auto-enrollment by increasing the cap; and
- Streamlining the safe harbor for non-elective contributions.

Employers with 401(k) plans must offer employees who work between 500 and 1000 hours a year an additional means to participate in the plan. The rule change would only affect 401(k) cash or deferral arrangements, and no other qualified plans.

Integrity

Innovation

Character

New Required Distribution Rules

Since only about 20% of retirees take no more than the amount that they're actually required to take, any changes in the rules around RMDs will have little effect on the remaining 80% who are already withdrawing more out of their accounts than the IRS requires. In addition, the SECURE Act does not change the age at which an individual can make a Qualified Charitable Distribution from their IRA, which remains at age 70 ½ and now creates a unique one or two year window where IRA distributions may qualify as charitable contributions, but not as RMDs.

However, for most designated beneficiaries who inherit in 2020 (i.e., where the retirement account owner dies in 2020 and beyond), the new standard for the distribution period under the SECURE Act will be the "10-Year Rule". Under this 10-Year Rule, the entire inherited retirement account must be withdrawn by the designated beneficiary by the end of the tenth year following the year of inheritance. Similar to the existing 5-year rule for non-spouse designated beneficiaries, there are no minimum annual distribution requirements during the 10 year period. Thus, designated beneficiaries will have some flexibility when it comes to timing distributions from the inherited IRAs for maximum tax efficiency, so long as the entire account balance has been distributed by the end of the tenth year after death.

While the new general rule under the SECURE Act will be the 10-Year Rule, there are four groups of designated beneficiaries to which the new 10-Year Rule will not apply. These beneficiaries, referred to as "Eligible Designated Beneficiaries", are 1) spousal beneficiaries; 2) disabled beneficiaries; 3) chronically ill beneficiaries; 4) individuals who are not more than 10 years younger than the decedent; and 5) certain minor children of the original retirement account owner, but only until they reach the age of majority.

For these Eligible Designated Beneficiaries, the same rules that applied to them before the SECURE Act will continue to apply. They can take distributions over the beneficiary's life expectancy and spousal beneficiaries may still engage in a spousal rollover as well. As a result, the "stretch IRA" isn't completely dead, but it will apply to a very small percentage of post-2019 beneficiaries.

Qualified Charitable Distributions

Since the SECURE Act was first passed by the House of Representatives during the summer of 2019, a recurring question was how the new age 72 RMD requirement will affect qualified charitable distributions (QCD)?

A QCD is a direct transfer of funds from your IRA custodian, payable to a qualified charity. Under prior law, a QCD automatically counted toward satisfying your RMD for the year and be excluded from taxable income. Traditional IRA funds are eligible to make QCDs, but the IRA owner must be at least 70 ½ in order to make a QCD.

The SECURE Act makes no changes to the date at which individuals may begin to use their IRAs and inherited IRAs to make QCDs. Thus, even though an individual turning 70 ½ in 2020 will not have to take an RMD for 2020, they may still use their IRA to make a QCD of up to $100,000 for the year after they actually turn 70 ½. Beginning in the year an individual turns 72, any amounts given to charity via a QCD will also reduce the then necessary RMD. Since the QCD and RMD minimum age dates are now unsynchronized for two years, it will simply allow the pre-tax IRA to be used for charitable contributions directly on a pre-tax basis from age 70 ½ to age 72.

Perspective

Strength

Using 529 Plan Funds for Student Loans

You may recall that the Tax Cuts and Jobs Act expanded the list of qualified education expenses for which 529 plan funds could be used tax-free. Those expenses were originally confined to college expenses, but were expanded to allow up to $10,000 of 529 plan funds to be used annually for K – 12 expenses. Section 302 of the SECURE Act further expands that list.

First, the SECURE Act provides that Qualified Higher Education Expenses will include expenses for Apprenticeship Programs that include fees, books, supplies and required equipment, provided the program is appropriately registered and certified with the Department of Labor.

In addition, and likely to be of greater interest to many with student loan debt, is the introduction of distributions for "Qualified Education Loan Repayments" as a qualified higher education expense. Such distributions may be used to pay the principal and/or interest of qualified education loans as defined in the Internal Revenue Code. These payments are limited to a lifetime amount of $10,000 not adjusted for inflation. The new rule also provides that any plan funds used to pay the interest on qualified student debt will render that interest paid ineligible for the above-the-line deduction for student loan interest under IRC Section 221. In other words, no double-dipping!

Roth IRA Conversions

The tax deferral benefit of stretch IRA's before the SECURE Act was significant, and was a component of many pre-2020 estate plans for families where the IRA creator contemplated leaving a significant IRA inheritance to his family. This change could encourage owners of larger IRA accounts to convert them into Roth IRA's during their lifetime.

For example, a baby boomer with a large IRA balance would normally have the following beneficiary plan. First, all of the IRA balance would pass to any surviving spouse, so that spouse could roll the balance over to his/her IRA completely tax free. That spouse would then take minimum distributions and pass the balance to heirs. As non-spouse beneficiaries, those heirs (presumably in their 40's or younger) could roll the entire inherited balance into a "stretch IRA". However, they would be required to begin to take immediate annual distributions, but in small annual amounts based on their actuarial life expectancy as calculated on their current age. This would generally allow the IRA balance net of the small annual required distributions to achieve further significant tax deferred growth despite some annual tax cost along the way. Tax deferral costs the Feds, hence their incentive to shorten the tax deferral period.

While it is not generally advisable to take distributions and pay retirement plan income taxes sooner than required, that will be the result with a conversion from a traditional IRA to a Roth IRA. So why embark on a conversion strategy that contradicts this thinking? The reason is to get the maximum tax deferral to family members, even if it requires paying some upfront taxes.

Part of the strategy for the IRA owner is to time the conversion over one or more tax years to try to manage the tax cost down to the lowest possible marginal tax rates. Further, there is nothing that requires the dollars in the IRA being converted to be used to pay the income tax. So the gross amount of the IRA balance can be converted and continue to grow tax deferred in the Roth IRA.

By eliminating the stretch IRA provision, the younger beneficiaries may be forced to take the inherited IRA balance into their taxable income over a ten year period that could be in the middle of their highest income earning years. And even though the 10 year rule will also apply to non-spouse beneficiaries of Roth IRAs, the conversion tax paid will be on the original IRA conversion date value which is likely to be much smaller than the inherited Roth IRA balance will be when it is distributed.

By converting portions of the boomer's traditional IRA balance into a "back door" Roth IRA, the beneficiaries of the Roth IRA may benefit from more tax deferral than from traditional IRAs.

Wisdom

Discipline

Confidence

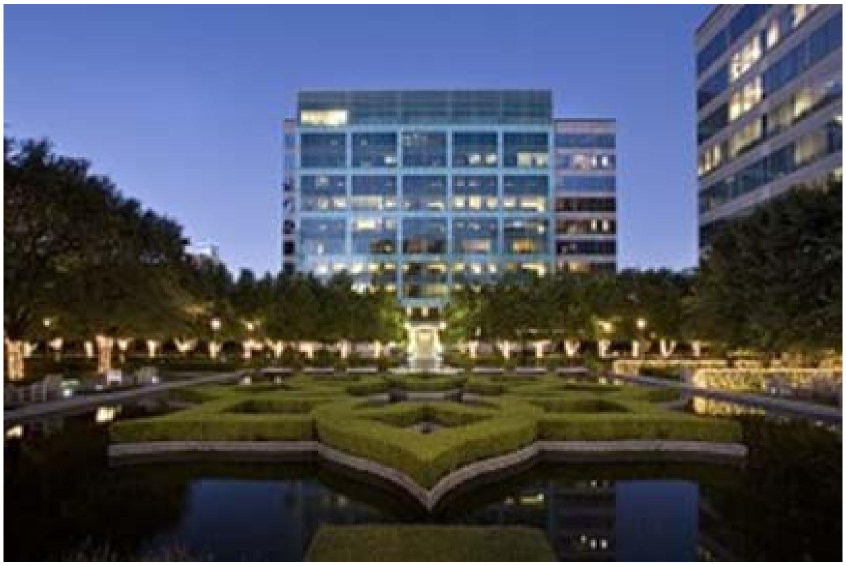
Redesigned Form W-4

For 2020, the IRS has redesigned Form W-4, Employee's Withholding Certificate. Among other things, the redesigned Form W-4 asks for the employee's filing status instead of marital status, and no longer asks for the number of withholding allowances the employee is claiming.

The new design reduces the form's complexity and increases the transparency and accuracy of the withholding system. While it uses the same underlying information as the old design, it replaces complicated worksheets with more straightforward questions that make accurate withholding easier for employees. Allowances are no longer used for the redesigned Form W-4. In the past, the value of a withholding allowance was tied to the amount of the personal exemption. Due to changes in law, currently you cannot claim personal exemptions or dependency exemptions.

Employees who have furnished Form W-4 in any year before 2020 are not required to furnish a new form merely because of the redesign. Employers will continue to compute withholding based on the information from the employee's most recently furnished Form W-4. The redesigned Form W-4 makes it easier for you to have your withholding match your tax liability. But if you prefer to have more tax than necessary withheld from each paycheck, you will get that money back as a refund when you file your tax return if you complete the new version of the Form.

The new 2020 Form W-4 can be used now with respect to wages to be paid in 2020.



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View Capital Advisors, LLC was founded in 2004 by its principals with the mission of providing sophisticated investment asset management and financial and estate planning to our U.S. and Non-U.S. clients.

We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.

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