Anchin Alert

Anchin, Block & Anchin LLP
Accountants and Advisors

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New Tax Legislation Impacts Your Retirement Planning

To our Clients and Other Friends:

On December 19, 2019, the SECURE ("Setting Every Community Up for Retirement Enhancement") Act became law. The legislation contains a lengthy series of provisions impacting retirement plans and their participants. Two such changes are especially significant:

REQUIRED MINIMUM DISTRIBUTIONS

When you contribute funds to a retirement plan such as an Individual Retirement Account (IRA) or a 401(k) plan, your contributions usually result in an immediate tax deduction, reducing your tax liability. Your funds then have the opportunity to grow within the plan for many years on a tax-deferred or tax-free basis. The combination of these two favorable tax provisions accelerates the speed with which you can build wealth.

At some point the law requires your tax deferral opportunity to end, by mandating that a certain amount of funds be withdrawn from your plans annually, and the related income taxes paid. Such withdrawals are known as required minimum distributions (RMDs). For many years, RMDs had to begin by April 1 of the year following the year in which you turned age 70 ½. This has changed. For persons turning 70 ½ in 2020 or later, RMDs can be further deferred until the year you become 72, or if taking advantage of the special first-year deferral option, April 1 of the year you turn 73. This change was driven by the fact that life expectancies have increased, as have many people's working lives. Depending on your date of birth, your retirement funds can remain fully sheltered from taxes for as much as much as two additional years.

"STRETCH" IRAs

A popular estate planning technique to transfer wealth to future generation(s) has been naming one's descendants as IRA beneficiaries who, upon inheriting the IRA, would in turn withdraw funds over the course of their own lifetime. This would enable a family to "stretch" an IRAs tax advantages over the course of multiple generations. Congress perceived this as an excessive tax benefit and has changed the rules. Beginning January 1, 2020, anyone that newly inherits an IRA from someone other than a spouse must withdraw all funds within ten years of the death of the owner.

There are some limited exceptions, but the stretch IRA technique will be largely unavailable. These changes will impact the effectiveness of tools, including but not limited to "conduit trusts" that are named as IRA beneficiaries. If you have been using "Stretch" IRAs as part of your estate plan, it is important to review your options and restructure your plan as needed.

Anchin will be offering additional information on these changes and their implications in an upcoming webinar. Details will follow. To further discuss these matters, please contact your Anchin Relationship Partner or Fred Barotz, a Tax Director at Anchin, at 212.840.3456 or fred.barotz@anchin.com.

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