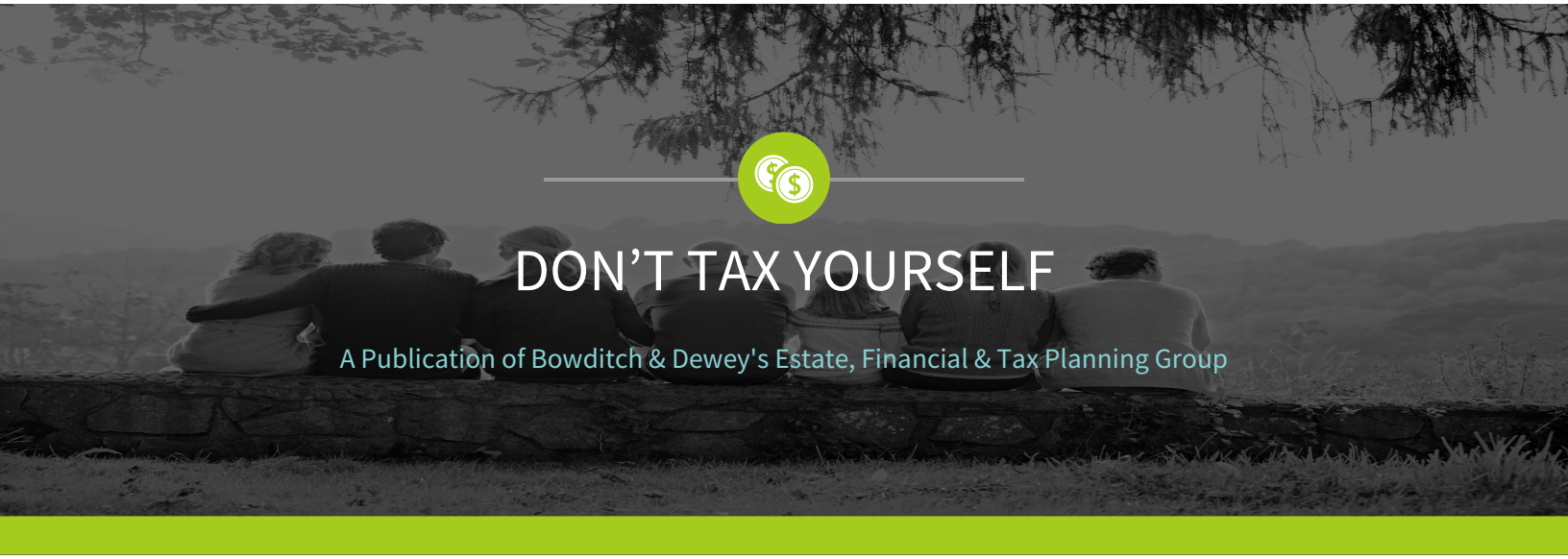


DON'T TAX YOURSELF

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SECURE ACT: "Stretch IRA" Rules Change in 2020

BY KATHERINE R. DORVAL • JANUARY 15, 2020

The Setting Every Community Up for Retirement Enhancement Act of 2019 or the "SECURE ACT" passed Congress in December of 2019 as part of a 2020 spending package. The president signed the bill on December 20th just in time to avoid a government shutdown. Included in the Act under the heading of "Revenue Provisions", is a significant change to the income tax deferral benefits currently available to non-spouse beneficiaries of inherited retirement accounts.

The Internal Revenue Code requires that minimum annual distributions from Qualified Retirement Plans and Individual Retirement Accounts be made to the named beneficiary following the death of the owner. The dizzying complexity of the minimum required distribution (or "MRD") rules has been the topic of lengthy books and seminars, and this is not intended to be a comprehensive account of the rules. In a nutshell, up until now, the rules generally allowed for the MRDs to be stretched over the length of the oldest individual beneficiary's life expectancy (and, as a result, defer the income taxation of the distributions).

The SECURE ACT will limit the "stretch" deferral period such that distributions will need to be completed by the end of the 10th calendar year following the death of the owner. There are four exceptions under the Act allowing for longer distribution periods for the following individuals: 1) surviving spouses, 2) disabled or chronically ill individuals, 3) individuals who are not more than 10 years younger than the IRA owner and 4) minor children of the IRA owner (but only until the child reaches the age of majority). The new rule, however, will have a wide application. Parents often name their adult children as the primary or contingent beneficiaries of their IRAs or other qualified retirement plans. For younger beneficiaries, this will have a significant impact.

If a parent names a child as a beneficiary of a qualified retirement account, and that child turns 40 the year after the parent dies, under old rules, that child could have stretched the MRDs over his or her life expectancy, which would be 43.6 years according to the IRS "Single Life Table". Under the SECURE ACT (going into effect on January 1, 2020) , the same beneficiary will have only 10 years (versus 43.6 years) to stretch out the distributions of the account balance. The intent is clearly to raise tax revenue resulting from the faster, greater MRDs. The effect, however, is to reduce the tax benefits of "Stretch IRAs" for non-spouse beneficiaries.

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If you have a “see-through” trust and have named your trust as the beneficiary (primary or contingent) of a qualified retirement account in order to take advantage of the old stretch distribution rules, it may be time to review your current plan and determine whether changes are warranted.

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