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James V Sadrianna PA - January 2020 Newsletter

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The SECURE Act may have the largest impact on retirement planning since the Pension Protection Act of 2006.

New Spending Package Includes Sweeping Retirement Plan Changes

The $1.4 trillion spending package enacted on December 20, 2019, included the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which had overwhelmingly passed the House of Representatives in the spring of 2019, but then subsequently stalled in the Senate. The SECURE Act represents the most sweeping set of changes to retirement legislation in more than a decade.

While many of the provisions offer enhanced opportunities for individuals and small business owners, there is one notable drawback for investors with significant assets in traditional IRAs and retirement plans. These individuals will likely want to revisit their estate-planning strategies to prevent their heirs from potentially facing unexpectedly high tax bills.

All provisions take effect on or after January 1, 2020, unless otherwise noted.

Elimination of the "stretch IRA"

Perhaps the change requiring the most urgent attention is the elimination of longstanding provisions allowing non-spouse beneficiaries who inherit traditional IRA and retirement plan assets to spread distributions — and therefore the tax obligations associated with them — over their lifetimes. This ability to spread out taxable distributions after the death of an IRA owner or retirement plan participant, over what was potentially such a long period of time, was often referred to as the "stretch IRA" rule. The new law, however, generally requires any beneficiary who is more than 10 years younger than the account owner to liquidate the account within 10 years of the account owner's death unless the beneficiary is a spouse, a disabled or chronically ill individual, or a minor child. This shorter maximum distribution period could result in unanticipated tax bills for beneficiaries who stand to inherit high-value traditional IRAs. This is also true for IRA trust beneficiaries, which may affect estate plans that intended to use trusts to manage inherited IRA assets.

In addition to possibly reevaluating beneficiary choices, traditional IRA owners may want to revisit how IRA dollars fit into their overall estate planning strategy. For example, it may make sense to consider the possible implications of converting traditional IRA funds to Roth IRAs, which can be inherited income tax free. Although Roth IRA conversions are taxable events, investors who spread out a series of conversions over the next several years may benefit from the lower income tax rates that are set to expire in 2026.

Benefits to individuals

On the plus side, the SECURE Act includes several provisions designed to benefit American workers and retirees.

- People who choose to work beyond traditional retirement age will be able to contribute to traditional IRAs beyond age 70½. Previous laws prevented such contributions.
- Retirees will no longer have to take required minimum distributions (RMDs) from traditional IRAs and retirement plans by April 1 following the year in which they turn 70½. The new law generally requires RMDs to begin by April 1 following the year in which they turn age 72.
- Part-time workers age 21 and older who log at least 500 hours in three consecutive years generally must be allowed to participate in company retirement plans offering a qualified cash or deferred arrangement. The previous requirement was 1,000 hours and one year of service. (The new rule applies to plan years beginning on or after January 1, 2021.)
- Workers will begin to receive annual statements from their employers estimating how much their retirement plan assets are worth, expressed as monthly income received over a lifetime. This should help workers better gauge progress toward meeting their retirement-income goals.
- New laws make it easier for employers to offer lifetime income annuities within retirement plans. Such products can help workers plan for a predictable stream of income in retirement. In addition, lifetime income investments or annuities held within a plan that discontinues such investments can be directly transferred to another retirement plan, avoiding potential surrender charges and fees that may otherwise apply.
- Individuals can now take penalty-free early withdrawals of up to $5,000 from their qualified plans and IRAs due to the birth or adoption of a child. (Regular income taxes will still apply, so new parents may want to proceed with caution.)
- Taxpayers with high medical bills may be able to deduct unreimbursed expenses that exceed 7.5% (in

2019 and 2020) of their adjusted gross income. In addition, individuals may withdraw money from their qualified retirement plans and IRAs penalty-free to cover expenses that exceed this threshold (although regular income taxes will apply). The threshold returns to 10% in 2021.

- 529 account assets can now be used to pay for student loan repayments ($10,000 lifetime maximum) and costs associated with registered apprenticeships.

Benefits to employers

The SECURE Act also provides assistance to employers striving to provide quality retirement savings opportunities to their workers. Among the changes are the following:

- The tax credit that small businesses can take for starting a new retirement plan has increased. The new rule allows employers to take a credit equal to the greater of (1) $500 or (2) the lesser of (a) $250 times the number of non-highly compensated eligible employees or (b) $5,000. The credit applies for up to three years. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of $1,000 (i.e., a maximum credit of $500).
- A new tax credit of up to $500 is available for employers that launch a SIMPLE IRA or 401(k) plan with automatic enrollment. The credit applies for three years.
- With regards to the new mandate to permit certain part-timers to participate in retirement plans, employers may exclude such employees for nondiscrimination testing purposes.
- Employers now have easier access to join multiple employer plans (MEPs) regardless of industry, geographic location, or affiliation. "Open MEPs," as they have become known, offer economies of scale, allowing small employers access to the types of pricing models and other benefits typically reserved for large organizations. (Previously, groups of small businesses had to be affiliated somehow in order to join an MEP.) The legislation also provides that the failure of one employer in an MEP to meet plan requirements will not cause others to fail, and that plan assets in the failed plan will be transferred to another. (This rule is effective for plan years beginning on or after January 1, 2021.)
- Auto-enrollment safe harbor plans may automatically increase participant contributions until they reach 15% of salary. The previous ceiling was 10%.

Gift and Estate Taxes

If you give away money or property during your life, those transfers may be subject to federal gift and estate tax and perhaps state gift tax. The money and property you own when you die (i.e., your estate) may also be subject to federal gift and estate tax and some form of state death tax. These property transfers may also be subject to generation-skipping transfer taxes. You should understand all of these taxes, especially since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (the 2001 Tax Act), the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Act), the American Taxpayer Relief Act of 2012 (the 2012 Tax Act), and the Tax Cuts and Jobs Act. The recent Tax Acts contain several changes that make estate planning much easier.

Federal gift and estate tax — background

Under pre-2001 Tax Act law, no federal gift and estate tax was imposed on the first $675,000 of combined transfers (those made during life and those made at death). The tax rate tables were unified into one — that is, the same rates applied to gifts made and property owned by persons who died in 2001. Like income tax rates, gift and estate tax rates were graduated. Under this unified system, the recipient of a lifetime gift received a carryover basis in the property received, while the recipient of a bequest, or gift made at death, got a step-up in basis (usually fair market value on the date of death of the person who made the bequest or gift).

The 2001 Tax Act, the 2010 Tax Act, the 2012 Tax Act, and the Tax Cuts and Jobs Act substantially changed this tax regime.

Federal gift and estate tax — current

The 2001 Tax Act increased the applicable exclusion amount for gift tax purposes to $1 million through 2010. The applicable exclusion amount for estate tax purposes gradually increased over the years until it reached $3.5 million in 2009. The 2010 Tax Act repealed the estate tax for 2010 (and taxpayers received a carryover income tax basis in the property transferred at death), or taxpayers could elect to pay the estate tax (and get the step-up in basis). The 2010 Tax Act also re-unified the gift and estate tax and increased the applicable exclusion amount to $5,120,000 in 2012. The top gift and estate tax rate was 35 percent in 2012. The 2012 Tax Act increased the applicable exclusion amount to $5,490,000 (in 2017) and the top gift and estate tax rate to 40 percent (in 2013 and later years). The Tax Cuts and Jobs Act, signed into law in December 2017, doubled the gift and estate tax exclusion amount and the GST tax exemption (see below) to $11,180,000 in 2018. The amount is $11.580,000 in 2020 ($11,400,000 in 2019). After 2025, they are scheduled to revert to their pre-2018 levels and cut by about one-half.

However, many transfers can still be made tax free, including:

- Gifts to your U.S. citizen spouse; you may give up to $157,000 in 2020 ($155,000 in 2019) tax free to your noncitizen spouse

- Gifts to qualified charities
- Gifts totaling up to $15,000 (in 2019 and 2020) to any one person or entity during the tax year, or $30,000 (in 2019 and 2020) if the gift is made by both you and your spouse (and you are both U.S. citizens)
- Amounts paid on behalf of any individual as tuition to an educational organization or to any person who provides medical care for an individual

Federal generation-skipping transfer tax

The federal generation-skipping transfer (GST) tax imposes tax on transfers of property you make, either during life or at death, to someone who is two or more generations below you, such as a grandchild. The GST tax is imposed in addition to, not instead of, federal gift and estate tax. You need to be aware of the GST tax if you make cumulative generation-skipping transfers in excess of the GST tax exemption ($11,580,000 in 2020, $11,400,000 in 2019). A flat tax equal to the highest estate tax bracket in effect in the year you make the transfer (40 percent in 2019 and 2020) is imposed on every transfer you make after your exemption has been exhausted.

State transfer taxes

Currently, a few states impose a gift tax, and a few states impose a generation-skipping transfer tax. Some states also impose a death tax, which could be in the form of estate tax, inheritance tax, or credit estate tax (also known as a sponge or pickup tax). Contact an attorney or your state's department of revenue or taxation to find out more information

Caring for an Aging Parent Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered? • Name, phone number, and address of parent • Parent's date of birth • Parent's Social Security number • Name, phone number, and address of attorney, physician, geriatric care manager, or other advisor • Parent's legal state of residence • Parent's health status • Parent's marital status • Family members available for support	❑	❑	❑
2. Has the parent's financial situation been assessed? • Income from pension, Social Security, employment, or other source • Expenses • Assets • Liabilities	❑	❑	❑
Notes:			

Insurance planning	Yes	No	N/A
1. Does the parent have life insurance?	❑	❑	❑
2. Does the parent have long-term care insurance?	❑	❑	❑
3. Does the parent have adequate health insurance? • Medicare • Medigap	❑	❑	❑
4. Does the parent have an adequate amount of other types of insurance? • Homeowners insurance • Auto insurance • Umbrella liability insurance	❑	❑	❑
Notes:			

Estate planning	Yes	No	N/A
1. Does the parent have an updated will?	❑	❑	❑

2. Has the parent prepared advanced directives? • Durable power of attorney • Living will • Health-care proxy	❑	❑	❑
3. Has the parent prepared letters of instruction?	❑	❑	❑
4. If the parent's estate is likely to be subject to estate tax, have ways to minimize estate taxes been considered?	❑	❑	❑
5. Has the parent made funeral arrangements?	❑	❑	❑
Notes:			

Housing issues	**Yes**	**No**	**N/A**
1. Is the parent's current housing situation satisfactory?	❑	❑	❑
2. If so, have contingency plans been made in case a housing change is necessary in the future?	❑	❑	❑
3. Have the parent's wishes regarding housing been considered?	❑	❑	❑
4. Have the child's wishes regarding housing been considered?	❑	❑	❑
5. Does the parent currently need nursing home care?	❑	❑	❑
6. Have alternative housing options been explored? • Remaining in home (possibly with in-home care) • Moving in with relative • Assisted living • Continuing care retirement communities • Senior apartments • Nursing home	❑	❑	❑
7. Have adult day-care options been discussed and evaluated?	❑	❑	❑
Notes:			

Financial issues	**Yes**	**No**	**N/A**
1. Does the parent have enough money from income and savings to sustain his or her lifestyle?	❑	❑	❑
2. Is his or her asset allocation still suitable?	❑	❑	❑
3. Is the parent able to make appropriate financial decisions?	❑	❑	❑

4. Should the child's name be added to accounts?	☐	☐	☐
5. Does Medicaid planning need to be considered?	☐	☐	☐
6. Will the parent be dependent on the child for financial support?	☐	☐	☐
7. If so, have the child's financial needs been considered?	☐	☐	☐
8. Have distribution strategies been discussed and evaluated?	☐	☐	☐
Notes:			
Other	**Yes**	**No**	**N/A**
1. Has a list of important documents and records been prepared? • Bank account records (statements and passbooks) • Stock certificates, bonds, and other investment records • Credit card statements • Mortgage, insurance, utility bills • Retirement plan statements • Income tax returns for the last three years • Real estate deeds, mortgages, and other property ownership records • Vehicle titles • Business agreements • Insurance policies • Will, trust, advanced directives, letters of instruction, and other documents • Location of and key to safe-deposit box • Birth certificate and marriage or divorce certificates • Citizenship records • Passport • Military records	☐	☐	☐
2. If the parent has an interest in a business, have arrangements been made to continue or dispose of the interest in the event of incapacity or death?	☐	☐	☐
Notes:			

Comparison of Education Tax Credits and Deductions

	American Opportunity credit	Lifetime Learning credit	Student loan interest deduction	Tuition and fees deduction
Credit/deduction applies to	Qualified tuition and related expenses for first four years of undergraduate education	Qualified tuition and related expenses for courses taken throughout lifetime to improve or acquire job skills	Interest paid on a qualified student loan	Qualified higher education expenses paid during the year Not available in 2019
Qualified education expenses include room and board?	No	No	Yes	N/A
Maximum credit/deduction	$2,500	$2,000	$2,500	N/A
Income limits in 2019	**Single filers:** full credit available if modified adjusted gross income (MAGI) $80,000 or less Partial credit available if MAGI between $80,000 and $90,000 **Joint filers:** full credit available if MAGI $160,000 or less Partial credit available if MAGI between $160,000 and $180,000	**Single filers:** full credit available if modified adjusted gross income (MAGI) $58,000 or less Partial credit available if MAGI between $58,000 and $68,000 **Joint filers:** full credit available if MAGI $116,000 or less Partial credit available if MAGI between $116,000 and $136,000	**Single filers:** full deduction available if modified adjusted gross income (MAGI) $70,000 or less Partial deduction available if MAGI between $70,000 and $85,000 **Joint filers:** full deduction available if MAGI $140,000 or less Partial deduction available if MAGI between $140,000 and $170,000	N/A
Less than half-time students or graduate students eligible?	No	Yes	Less than half-time--no; graduate students--yes	N/A
Limit on number of students in family for whom credit/deduction can be taken in same year?	No	Yes, annual credit is limited to $2,000 per tax return	No; if applicable, parents can claim the deduction for more than one child in the same year	N/A
Credit/deduction available in same year as tax-free distribution from a Coverdell education savings account?	Yes	Yes	Yes	N/A

Must student be enrolled for a degree or in other program leading to an educational credential?	Yes	No	Yes	N/A
Allowed if student has a controlled substance conviction?	No	Yes	Yes	N/A

For more information on costs and benefits related to Social Security and Medicare, visit ssa.gov and medicare.gov.

Medicare premiums, deductibles, and coinsurance amounts change annually. Here's a look at some of the costs that will apply in 2020 if you're enrolled in Original Medicare Part A and Part B.

Medicare Part B premiums

According to the Centers for Medicare & Medicaid Services (CMS), most people with Medicare who receive Social Security benefits will pay the standard monthly Part B premium of $144.60 in 2020. However, if your premiums are deducted from your Social Security benefits, and the cost-of-living increase in your benefit payments for 2020 will not be enough to cover the Medicare Part B increase, then you may pay less than the standard Part B premium.

People with higher incomes may pay more than the standard premium. If your modified adjusted gross income (MAGI) as reported on your 2018 federal income tax return is above a certain amount, you'll pay the standard premium amount and an Income Related Monthly Adjustment Amount (IRMAA), which is an extra charge added to your premium, as shown in the following table.

You filed an individual income tax return with MAGI that was:	You filed a joint income tax return with MAGI that was:	You filed an income tax return as married filing separately with MAGI that was:	Monthly premium in 2020 including any IRMAA is:
$87,000 or less	$174,000 or less	$87,000 or less	$144.60
Above $87,000 up to $109,000	Above $174,000 up to $218,000	N/A	$202.40
Above $109,000 up to $136,000	Above $218,000 up to $272,000	N/A	$289.20
Above $136,000 up to $163,000	Above $272,000 up to $326,000	N/A	$376.00
Above $163,000 and less than $500,000	Above $326,000 and less than $750,000	Above $87,000 and less than $413,000	$462.70
$500,000 and above	$750,000 and above	$413,000 and above	$491.60

Other Medicare costs

The following out-of-pocket costs for Original Medicare Part A and Part B apply in 2020:

- Part A deductible for inpatient hospitalization: $1,408 per benefit period
- Part A premium for those who need to buy coverage: up to $458 per month (most people don't pay a premium for Medicare Part A)
- Part A coinsurance: $352 per day for days 61 through 90, and $704 per "lifetime reserve day" after day 90 (up to a 60-day lifetime maximum)
- Part B annual deductible: $198
- Skilled nursing facility coinsurance: $176 for days 21 through 100 (for each benefit period)

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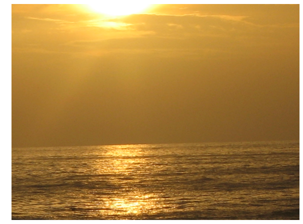

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