CAPE CORAL ACCOUNTING SERVICE, LLC
Established 1961

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Dear Client:

Congress recently passed, and the President signed into law, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act). landmark legislation that may affect how you plan for your retirement. Many of the provisions go into effect in 2020, which means now is the time to consider how these new rules may affect your tax and retirement-planning situation.

Here is a look at some of the more important elements of the SECURE Act that have an impact on individuals. The changes in the law might provide you and your family with tax-savings opportunities. However, not all of the changes are favorable, and there may be steps you could take to minimize their impact. Please give me a call if you would like to discuss these matters.

Repeal of the maximum age for traditional IRA contributions. Before 2020, traditional IRA contributions were not allowed once the individual attained age 70 1/2. Starting in 2020, the new rules allow an individual of any age to make contributions to a traditional IRA. as long as the individual has compensation. which generally means earned income from wages or self-employment.

***Required minimum distribution age raised from** 70 1/2 to 72.* Before 2020. retirement plan participants and IRA owners were generally required to begin taking required minimum distributions. or RMDs, from their plan by April 1 of the year following the year they reached age *70 1/2.* The age 70 1/2 requirement was first applied in the retirement plan context in the early 1960s and, until recently. had not been adjusted to account for increases in life expectancy.

For distributions required to be made after Dec. 31. 2019. for individuals who attain age *70 1/2* after that date. the age at which individuals must begin taking distributions from their retirement plan or IRA is increased from 70 1/2 to 72.

Partial elimination of stretch IRAs. For deaths of plan participants or IRA owners occurring before 2020, beneficiaries (both spousal and nonspousal) were generally allowed to stretch out the tax-deferral advantages of the plan or IRA by taking distributions over the beneficiary's lite or life expectancy (in the IRA context. this is sometimes referred to as a "stretch IRA").

However. for deaths of plan participants or IRA owners beginning in 2020 (later for some participants in collectively bargained plans and governmental plans). distributions to most nonspouse beneficiaries are generally required to be distributed within ten years following the plan participant's or IRA owner's death (1 0-year rule). So, for those beneficiaries, the "stretching" strategy is no longer allowed.

Exceptions to the 10-year rule are allowed for distributions to (l) the surviving spouse of the plan participant or IRA owner; (2) a child of the plan participant or IRA owner who has not reached majority: (3) a chronically ill individual; and (4) any other individual who is not more than ten years younger than the plan participant or IRA owner. Those beneficiaries who qualify under this exception may generally still take their distributions over their life expectancy (as allowed under the rules in effect for deaths occurring before 2020).

Expansion of Section 529 education savings plans to cover registered apprenticeships and distributions to repay certain student loans. A Section 529 education savings plan (a 529 plan, also known as a qualified tuition progranl) is a tax-exempt program established and maintained by a state. or one or more eligible educational institutions (public or private). Any person can make nondeductible cash contributions to a 529 plan on behalf of a designated beneficiary. The earnings on the contributions accumulate tax- free. Distributions from a 529 plan arc excludable up to the amount of the designated beneficiary's qualified higher education expenses.

Before 2019. qualified higher education expenses did not include the expenses of registered apprenticeships or student loan repayments.

But for distributions made after Dec. 31. 2018 (the effective date is retroactive). tax-free distributions from 529 plans can be used to pay for fees, books, supplies, and equipment required for the designated beneficiary s participation in an apprenticeship program. In addition, tax-free distributions (up to $10.000) are allowed to pay the principal or interest on a qualified education loan of the designated beneficiary. or a sibling of the designated beneficiary.

Kiddie tax changes. In 2017, Congress passed the Tax Cuts and Jobs Act (TCJA, P.L. 115-97), which made changes to the so-called "kiddie tax," which is a tax on the unearned income of certain children. Before enactment of the TCJA, the net unearned income of a child was taxed at the parents' tax rates if the parents' tax rates were higher than the tax rates of the child.

Under the TCJA. for tax years beginning after Dec. 31, 2017. the taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates. Children to who the kiddie tax rules apply and who have net unearned income also have a reduced exemption an1 0unt under the alternative minimum tax (AMT) rules.

There had been concern that the TC.IA changes unfairly increased the tax on certain children. including those who were receiving government payments (i.e., unearned income) because they were survivors of deceased military personnel ("gold star children"). first responders, and emergency medical workers.

The new rules enacted on Dec. 20, 2019. repeal the kiddie tax measures that were added by the TCJA. So. starting in 2020 (with the option to start retroactively in 2018 and/or 2019). the unearned income of children is taxed under the pre-TCJA rules. and not at trust/estate rates. And starting retroactively in 2018, the new rules also eliminate the reduced AMT exemption amount for children to whom the kiddie tax rules apply and who have net unearned income.

Penalty-free retirement plan withdrawals for expenses related to the birth, or adoption of a child. Generally, a distribution from a retirement plan must be included in income. And, unless an exception applies (for example, distributions in case of financial hardship), a distribution before the age of 59'll is subject to a 10% early withdrawal penalty on the amount includible in income.

Starting in 2020, plan distributions (up to $5.000) that are used to pay for expenses related to the birth or adoption of a child arc penalty-free. That $5,000 amount applies on an individual basis. so for a married couple, each spouse may receive a penalty-free distribution up to $5,000 for a qualified birth or adoption.

Taxable non-tuition fellowship and stipend payments are treated as compensation for IRA purposes. Before 2020, stipends and non-tuition fellowship payments received by graduate and postdoctoral students were not treated as compensation for IRA contribution purposes, and so could not be used as the basis for making IRA contributions.

Starting in 2020, the new rules remove that obstacle by permitting taxable non-tuition fellowship and stipend payments to be treated as compensation for IRA contribution purposes. This change will enable students receiving those payments to begin saving for retirement without delay.

Tax-exempt difficulty-of-care payments are treated as compensation for determining retirement contribution limits. Many home healthcare workers do not have taxable income because their only compensation comes from "difficulty-of-care" payments that are exempt from taxation. Because those workers did not have taxable income, they were not able to save for retirement in a qualified retirement plan or IRA.

For contributions made to IRAs after Dec. 20. 2019 (and retroactively starting in 2016 for contributions made to certain qualified retirement plans). the new rules allow home healthcare workers to contribute to a retirement plan or IRA by providing that tax-exempt difficulty-of-care payments are treated as compensation for purposes of calculating the contribution limits to certain qualified plans and IRAs.

We look forward to working with you.