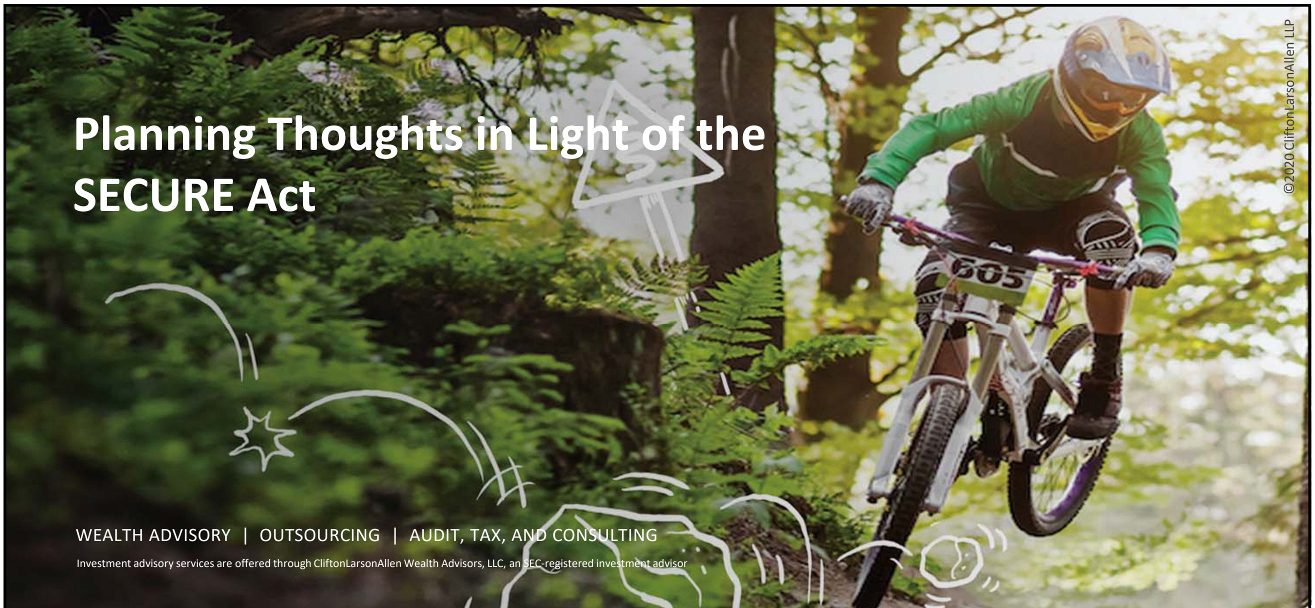
Planning Thoughts in Light of the SECURE Act



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Create Opportunities

Agenda

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

2

Agenda

- SECURE Act
  - Overview of changes
  - Planning pointers
- CARES Act
  - Provisions applicable to estate planning

SECURE Act

"Setting Every Community Up for Retirement Enhancement Act"

©2020 CliftonLarsonAllen LLP

Overview

- Signed into law on December 20, 2019
- Effective January 1, 2020
- Key provisions affecting income tax and estate planning
  – Repeal of maximum age for traditional IRA Contributions
  – Increase age for required beginning date for required minimum distributions
  – Significant changes to post-death required minimum distributions rules
  – Other individual impacts

Summary

Old Rules	New Rules
No deduction allowed for contribution to a traditional IRA for individual who **attained age 70 ½** before close of tax year	**No maximum age** for individuals to contribute to a traditional IRA plan
Required Minimum Distributions starting at age **70 ½**	Increased RMD age to **72**
Distributions to beneficiaries **over their lifetimes**	After death, retirement account balance must be distributed within **10 years**
529 plan distributions only for qualified higher **education expenses** including books, supplies, and equipment	Allows tax free distributions for an **apprenticeship** program and to pay principal/interest on **education loan**
Taxable unearned income of child taxed according to **trust and estate** brackets	Appeals TCJA changes and unearned income of child once again taxed at the **parents' rates**

Significant changes to post-death RMD rules

- Exception for Eligible Designated Beneficiaries (EDBs)
  - Eligible Designated Beneficiaries are:
    - ◊ Surviving spouse of the account owner
    - ◊ Minor child of the account owner
    - ◊ Disabled beneficiary
    - ◊ Chronically ill individual
    - ◊ Less than 10 years younger beneficiary
  - During the EDB's life, annual distributions required over the EDB's life expectancy
  - Upon a minor child reaching majority and after an EDB's death distributions required under the 10-year rule

Post-death required minimum distribution rules
Account owner dies before Required Beginning Date

Beneficiary Situation	Pre-SECURE Prior Law applies to beneficiaries of Account Owners dying before 2020	Post-SECURE New Law applies to beneficiaries of Account Owners dying after 2019
Designated beneficiary (DB) who IS NOT an Eligible Designated Beneficiary (EDB)	Annually over DB's life expectancy *	By 12/31 of 10th year after account owner's death (10-year rule)
Designated beneficiary (DB) who IS an Eligible Designated Beneficiary (EDB)		
Surviving spouse of the account owner Disabled beneficiary Chronically ill beneficiary Less than 10 years younger beneficiary	Annually over DB's life expectancy *	Annually over EDB's life expectancy for life; then by 12/31 of 10th year after EDB's death (10-year rule)
Minor child of the account owner	Annually over DB's life expectancy *	Annually over EDB's life expectancy until earlier of reaching majority or death; then by 12/31 of the 10th year after that (10-year rule)
No Designated Beneficiary (DB)	By 12/31 of 5th year after owner's death (5-year rule)	By 12/31 of 5th year after owner's death (5-year rule)

* SECURE requires distribution of the entire account by 12/31 of the 10th year after the beneficiary's death

Post-death required minimum distribution rules
Account owner dies after Required Beginning Date

Beneficiary Situation	Pre-SECURE Prior Law applies to beneficiaries of Account Owners dying before 2020	Post-SECURE New Law applies to beneficiaries of Account Owners dying after 2019
Designated beneficiary (DB) who IS NOT an Eligible Designated Beneficiary (EDB)	Annually over the longer of the life expectancy of the DB or the deceased account owner *	By 12/31 of 10th year after account owner's death (10-year rule). It's unclear if the deceased account owner's life expectancy can be used if it is longer than 10 years.
Designated beneficiary (DB) who IS an Eligible Designated Beneficiary (EDB)		
Surviving spouse of the account owner Disabled beneficiary Chronically ill beneficiary Less than 10 years younger beneficiary	Annually over the longer of the life expectancy of the DB or the deceased account owner *	Annually over EDB's life expectancy for life; then by 12/31 of 10th year after EDB's death (10-year rule)
Minor child of the account owner	Annually over the longer of the life expectancy of the DB or the deceased account owner *	Annually over EDB's life expectancy until earlier of reaching majority or death; then by 12/31 of the 10th year after that (10-year rule)
No Designated Beneficiary (DB)	Annually over the life expectancy of the deceased account owner	Annually over the life expectancy of the deceased account owner

* SECURE requires distribution of the entire account by 12/31 of the 10th year after the beneficiary's death

Significant changes to post-death RMD rules (continued)

- Effective date
  - Secure distribution rules apply for accounts of owners dying after 2019
  - The 10-year rule also applies upon the death of beneficiaries of account owners who died before 2020
- Impact on tax and estate planning:
  - accelerated distribution period means higher required distributions
  - beneficiaries receive complete distributions sooner than under pre-SECURE

Significant changes to post-death RMD rules (continued)

- Opportunities/strategies to consider
  - Qualified disclaimer by the beneficiary of a pre-2020 decedent could improve the payout period.
  - Review estate plans of clients with significant retirement plan accounts, particularly if they have conduit trusts named as beneficiaries.
  - Name multiple DBs of a traditional IRA to spread distributions over more taxpayers/tax brackets.

Significant changes to post-death RMD rules (continued)

- Opportunities/strategies to consider, continued
  - If the client has both a Roth IRA and a traditional IRA, consider leaving the Roth IRA to a see-through trust designated beneficiary
  - If need to leave a traditional IRA to an accumulation trust or to high tax bracket beneficiaries, plan for the funding of increased income taxes and consider life insurance.
  - Name charities as traditional IRA beneficiaries instead of having charitable bequests in a will or revocable trust.

Significant changes to post-death RMD rules (continued)

- Opportunities/strategies to consider, continued
  - Choose Eligible Designated Beneficiaries for an IRA and other assets for those who are not Eligible Designated Beneficiaries.
  - Structure lifetime Roth IRA conversions or traditional IRA distributions if the traditional IRA owner is likely in a lower income tax bracket than the beneficiaries will be in.
  - Provide income tax planning for designated beneficiaries who are not Eligible Designated Beneficiaries to determine how much to withdraw each year under the 10-year rule.

CARES Act

"Coronavirus Aid, Relief, and Economic Security"

Highlights - Individuals

- Individual Recovery
- Retirement Provisions
- Charitable Giving
- Exclusion – student loans

2020 Recovery Rebates for Individuals

- New credit for 2020 (Sec. 6428)
  - $1,200 per eligible individual
  - $500 per qualifying children
- Limit based on AGI
  - $150,000 MFJ
  - $112,500 HOH
  - $75,000 all others

2020 Recovery Rebates for Individuals (continued)

- Advance refunds of credit
  - Based on 2019 or 2018 AGI
- Example:
  - Family of 5 with 2019 AGI of $200K and 2020 AGI of $170k
  - Advance refund of $1,400 ($3,900 - $2,500)
  - Credit with 2020 return of $1,500 ($3,900 - $1,000 - $1,400)
- No claw back written

Retirement Provisions

- COVID-19 distributions
  - Withdraw up to $100,000 – without penalty and mandatory tax withholding
  - Income taxes may be paid over 3-year period
  - Repay over 3-year period
- Eligibility
  - Diagnosed with COVID-19 – you, spouse or dependent
  - Suffer adverse financial consequences

Retirement Provisions (continued)

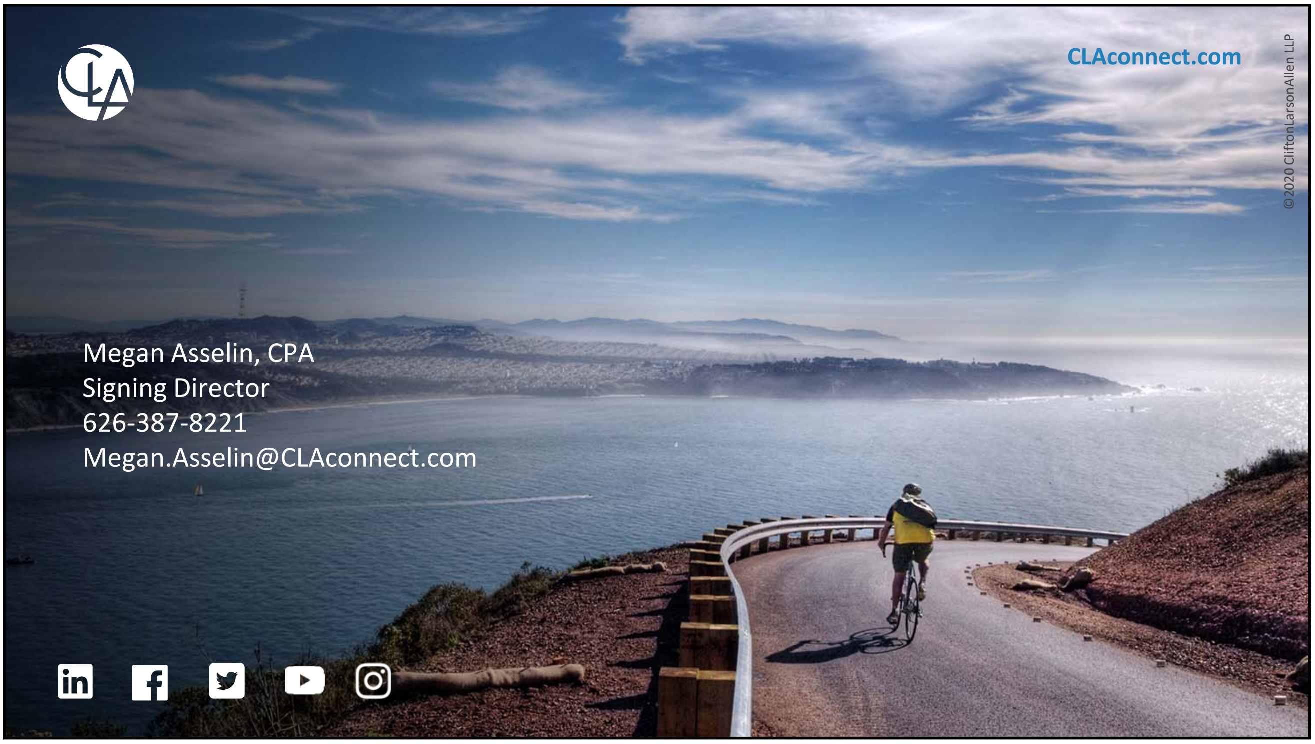
- Enhanced loan provisions
  - Any payments owed on plan loan from enactment through end of 2020 may be delayed for up to one year
- Suspension of 2020 RMDs
  - Optimal time to have clients consider Roth conversions
  - Notice 2020-51 revised some of the provisions related to recontributing distributions
- 5-year rule for non-designated beneficiaries ignored for 2020

Charitable Giving

- Eligible Individuals (those not itemizing) may take an above-the-line deduction of up to $300 for qualified charitable contributions for tax years beginning 2020
- Modifications to the limit in applying 60% on cash contributions of individuals and the rules on carryover of excess contributions. (clarifications)
- Corporate cash contributions cannot exceed 25%
- Charitable contributions of food during 2020 increased from 15% to 25%

Exclusion for student loan repayment

- Exclude up to $5,250 from income for loan repayments made by an employer
- Between March 27, 2020 and December 31, 2020
- No apparent connection to COVID-19 for eligibility.


CLAconnect.com
©2020 CliftonLarsonAllen LLP
Megan Asselin, CPA
Signing Director
626-387-8221
Megan.Asselin@CLAconnect.com