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## It's a New Year, a New Decade.... And with it we have New Tax laws.

After we have made our new year resolutions, we should also take time to review the recent tax law changes so we can maximize our tax benefits in the upcoming year. During the last days of 2019, Congress passed, and the President signed two acts into law, the "Setting Every Community Up for Retirement Enhancement Act of 2019", (the SECURE Act.), and the "Taxpayer Certainty and Disaster Relief Act of 2019" (the Disaster Act). The latter was part of the omnibus spending package, the "Further Consolidated Appropriations Act, 2020 (H.R. 1865, PL 116-94) which extended certain Code provisions at least through 2020.

# The Secure Act of 2019

The SECURE Act was enacted to expand the opportunities for individuals to increase their retirement savings and to make administrative simplifications to the retirement systems to encourage more employers to offer retirement plans to their employees.

This act introduces several reforms to make saving for retirement more accessible and easier for many individuals. Some of the key changes affecting the taxpayers and their businesses are:

**Repeal of Maximum Age for Traditional IRA contributions**
For tax years beginning January 1, 2020, the SECURE ACT allows individuals over 70½ to contribute to their IRA's. For those individuals donating through a Qualified Charitable Distribution (QCD), the amount excludable from income is reduced by the amount of contribution qualifying for a tax deduction in that tax year.

**Required Minimum Distribution (RMD) Age Increases** -The SECURE Act increases the age of mandatory RMD from 70½ to 72. This change applies to individuals who attain the age of 70½ after December 31, 2019.

**Post-Death Required Minimum Distribution (RMD) Rule Changes Time Period Payout**
Under the SECURE Act, the general rule states that, after an owner of a retirement account dies, the remaining account balance must be distributed within ten years after the date of death. This rule applies

regardless of whether the IRA owner dies before or after their required beginning date for required minimum distributions purposes. There are a few exceptions which allow the account to be distributed over the life of the beneficiary if the beneficiary 1) is the surviving spouse, 2) is the child of the deceased and has not reached majority, 3) is a chronically ill individual as defined in the IRS Code Sec 401(a), or 4) is an individual who is not more than ten years younger than the deceased retirement account owner.

**Penalty-free Retirement Plan/ IRA Includes Withdrawals for Births or Adoptions** - The SECURE ACT waives the 10% early withdrawal penalty on distributions from qualified retirement plans, traditional IRAs and individual retirement annuities for birth and adoptions up to an aggregate of $5,000 per individual parent.

**Non-Tuition Fellowship and Stipend Payments Treated as Compensation for IRA Contribution Purposes** - For tax years beginning after Dec. 31, 2019, the Act provides that, for purposes of calculating the amount allowed to be contributed to an individual's IRA, stipends and non-tuition fellowship payments received by graduate and postdoctoral students are includable as earned income. This will allow these individuals to invest a greater amount in IRA's each year.

**Expansion of Section 529 Plan Uses** - The SECURE Act broadens tax free usage of distributions from 529 accounts to include amounts used to repay up to $10,000 on qualified student loans (principal or interest). It also allows such amounts to be distributed to repay qualified student loans of a sibling of a designated beneficiary. Unlike most of the new tax laws, this rule applies to distributions made after December 31, 2018 (the 2019 tax year).

**Savings for Retirement is Encouraged Both for the Employee and the Business Owner** - The SECURE Act added several rules to make it easier for employers to provide retirement plans to help employees save for their retirement.

- **For Employees** - The SECURE Act made it easier for long-term, part-time employees to participate in retirements plans by decreasing the number of hours required to be worked from 1,000 to 500 per year.
- **For Employers** - The SECURE Act provided relief from the "one bad apple" rule for covered multiple employer retirement plans which provided relief from disqualification from the pooled employer plan. Also, the Act increases the tax credit for qualified start-up costs for new small employer pension plans.
- **For Employees and Employers** - The Auto Enrollment Safe Harbor Cap was increased from 10% to 15% for plan years beginning after December 31, 2019. This type of 401(K) plan automatically enrolls the employee in the 401(K) Plan unless the employee specifically opts out. Pursuant to requirements a certain percentage of the employee's compensation is deferred and, also included, is a certain minimum corporate match as stated in the plan. In addition, the Act also created a new tax credit of up to $500 per year for employers who implement new 401(K) and SIMPLE IRA plans that include automatic enrollment.

**"Kiddie Tax" Amendment Reverts Back to Pre-Tax Cuts and Jobs Act (TCJA) days** - Congress expressed a concern that the rates imposed by the TCJA, unfairly increased the tax burden on certain children, including the survivors of deceased military personnel, first responders and emergency medical workers. Therefore, the SECURE Act repealed the kiddie tax provisions back to those under pre-TCJA rates where the unearned income of a child was generally taxed at the higher of the child's or their parents' tax rates. Unearned income includes items such as investment income, interest, dividends, and gain from stock sales, etc.

**Failure to File Penalty Increases** - Effective for returns due after December 31, 2019, the SECURE Act increases the "Failure to File" penalty to the lesser of $435 or 100% of the amount of the tax due. Previously, the penalty was the lessor of $205 or 100% of tax due.

# Taxpayer Certainty and Disaster Relief Act of 2019

The Disaster Act extends over 30 Code provisions, generally through 2020. Below are some of the more significant ones:

**Reduction in medical expense deduction floor**. The Act extends the threshold of 7.5% for tax years beginning after Dec. 31, 2018 and before Jan 1, 2021.

**Exclusion from gross income of discharge of qualified principal residence indebtedness**. Under Pre-Disaster Act, the discharge of indebtedness from qualified principal residence debt, up to $2 million for Married filing jointly ($1 million for married filing separately) was excluded from income in declared Disaster area. The Disaster Act retroactively extends this exclusion to discharge of indebtedness before January 1, 2021.

**Employer tax credit for Paid Family and Medical Leave**. The Disaster Act extends this credit permitting eligible employers to claim elective general business credit equal to varying percentages applied to eligible wages paid to qualifying employees on family and medical leave up to 12 weeks per tax year, through the 2020 tax year.

**Treatment of mortgage insurance premium as qualified resident interest.** The Disaster Act extends this treatment through 2020 for amounts incurred after December 31, 2017.

**Deduction of qualified tuition and related expenses**. The law provides an above the line deduction for qualified tuition and related expenses for higher education. The deduction is capped at $4,000 and subject to phase outs. The act extends this deduction through 2020 and retroactively back to tax years beginning after December 31, 2017.

**Nonbusiness energy property**. The law allows credits ranging from $50 to $300 for energy efficient improvements to the nonbusiness buildings for property including furnaces, boilers biomass stoves, heat pumps, central air conditioners, windows, doors, etc. The act retroactively extends this credit through 2020 tax year and applies to property placed in service after Dec. 31, 2017. The lifetime cap remains at $500.

**Repeal of three taxes and fees from the Affordable Care Act**

- Excise tax originally applied to sales after December 31, 2012 of taxable medical devices was repealed for sales occurring after December 31, 2019.
- The annual flat fee on covered entities engaged in the business of providing health insurance with respect to U.S. health risks was repealed for years beginning after December 31, 2020, and
- The nondeductible excise tax imposed on insurers when the aggregate value of employer-sponsored health insurance coverage for an employee, etc. exceeded a threshold amount was repealed for tax years beginning after December 31, 2019.

These are highlights of the numerous new rules, extensions of expired provisions and changes that were included in these two Acts. If you have any questions, please don't hesitate to call us to further discuss how these new tax laws and tax extensions may benefit your tax situation either retroactively or in the upcoming tax year.

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