RELIANT
WEALTH PLANNING

2020 Planning Updates

2019 saw some wonderful returns in the markets. It also saw some major changes in how retirement accounts work. Below is a summary of some financial planning facts many of you will find useful and interesting. As always, the data is to the best of our knowledge as of the time of writing. Things can always change, so we encourage you to consult proper tax and legal counsel as appropriate. Let's dig in.

SECURE Act

Congress has a habit of passing BIG tax bills late in the year and 2019 was no exception. On December 20, 2019, the President signed the SECURE Act into law. This has some major ramifications for various areas of planning on which we have dealt with many of you. Below are some quick summaries of the most significant areas.

Required Minimum Distribution Age Changed to 72: For quite some time, the Required Minimum Distribution (RMD) age has been 70 ½: you were required to begin taking withdrawals from almost all retirement accounts once you reached this age. The age was clunky (who tracks when their 70 ½ birthday is?!?!) and life expectancies are on a general uptrend. In recognition of such things, the RMD age has now been raised to 72, giving folks an extra 18 months before they must start.

The bad news if you were at least 70 ½ by December 31, 2019, you are still under the old rules. So there is a group of people who will not be 72 in 2020 who still have to begin RMDs. Nothing is ever simple.

Qualified Charitable Distributions (QCDs) still the same: Originally, being able to give up to $100,000 to a charity directly from a retirement account without triggering taxes was linked to the RMD age: only clients at least 70 ½ could do this, but the distribution did count as an RMD. Strangely, Congress has now "delinked" this. QCDs are still available at age 70 ½, even though the RMD start age is now 72. That is a good thing, which makes me wonder if they did that on purpose…

Lifetime "Stretch" IRAs Mostly Gone: For retirement account owners who died prior to Jan 1, 2020, their heirs had the option of "stretching" their inherited retirement accounts, which allowed them to take distributions over their lifetimes, helping to control taxes. That option is gone for the heirs of anyone who dies on Jan 1, 2020 and beyond, being replaced with a 10-year rule. Now, heirs will have 10 years to withdraw ALL the assets within a retirement account. They don't have to take them at any certain pace, and can actually take none until the 10th year, but by the end of the 10 years, the retirement account must be empty. This can cause the realization of taxes much earlier than before and cause the rate that the taxes are paid to go up. Note: for anyone already stretching a retirement account, they are grandfathered and allowed to continue to do this for the rest of their lives. The new rule is only in effect for those who inherited from someone that passes away after December 31, 2019. Also, there are some beneficiaries exempt from the new rule, referred to as "Eligible Designated Beneficiaries":

1. Spouses
2. Disabled beneficiaries
3. Chronically ill beneficiaries
4. Individuals who are not more than 10 years younger than the decedent
5. Certain minor children (must be the child of the original retirement acct owner) but only until they reach the age of majority (18 in KY and most states, but not all), then the 10-year rule kicks in

Impact on Trusts: Many of you have named a trust you have created for this purpose as the beneficiaries of your retirement accounts. These trusts were specially worded to allow retirement assets to be left to them and add protections against creditors, bankruptcies, and divorce. This law change will have significant impacts on this strategy. Clients trying to use this strategy will have to choose between two not great options: give up protections or have a less efficient tax situation. We will wait for legal experts to decide what is the best response to this change, but currently there appears to be three general courses of action to take:

1) Change beneficiaries to be living persons instead of the trust
2) Rework the trust language to try to mitigate some of the worst ramifications
3) Create new structures, using more complicated trust types (such as a Charitable Remainder Trust).

Which general direction is best will depend on what you were trying to accomplish by using the strategy in the first place. If it was because just having general protection for your heirs seemed like a good idea, then that might lead to option #1. If there was a very specific situation you were trying to protect against, then option #2 or #3 may be a better fit. But just keeping it as-is is probably NOT going to be the best plan.

<u>Prohibition on Contributing to Traditional IRA after 70 ½ Lifted</u>: For those that are 70 ½ or older and still working, you can now continue contributing to a Traditional IRA. Before, the Traditional IRA was the ONLY retirement account you could no longer contribute to after 70 ½. You still must have "earned" income (pensions, Social Security, dividends, interest, most rental income, etc. does NOT count).

<u>Small Business Owners with Employer Sponsored Retirement Accounts:</u> There was a slew of new provisions for those of you that are business owners and sponsor retirement plans. A quick summary is below:

-Rules eased to allow annuities as investment options
-Possible to get a larger tax credit for establishing a plan
-Possible to get a tax credit for adopting auto-enrollment for employees
-Long-term part-time employees have greater access to plan
-Ability to participate in a Multiple Employer Retirement Plan (MEPs), basically several relatively unrelated businesses pooling their retirement plans to save on fees.
-Can now establish employer-funded retirement plans (e.g. SEP, Profit Sharing, etc.) up to due date of employer's tax return

<u>Section 529 Education Plans can now Pay Certain Amounts of Student Loans and Apprenticeship Expenses:</u> In a change that will be welcomed by many, 529 funds can be used to pay principal and/or interest on education loans, up to a $10,000 lifetime limit per student. They can also be used to pay expenses for Apprenticeship Programs (e.g. fees, books, supplies, required equipment) as long as the program is registered and certified with the Department of Labor.

<u>Kiddie-Tax Eased:</u> Income earned by minors above the exemption amount is now back to being taxed at the parents' tax rate. For the last two years, it was taxed at trust tax rates (which were noticeably higher for most). And to make things interesting, the law allows the *NEW* rule to be retroactively applied in 2018 and 2019. Thus, if a child had a high-income level in 2018, it might be worth filing an amended return.

Retirement Account Contributions

For those still working, you can now contribute more in 2020 to employer sponsored plans while the contribution limits to your own Traditional IRAs / Roth IRAs stays the same. You may need to adjust any contributions to employer plans.

2020 Retirement Plan Contribution Limits	
Annual compensation used to determine contribution for most plans	$285,000
Defined-contribution plans, basic limit	$57,000
401(k), 403(b), 457 plans elective deferral limit	$19,500
Catch-up for age 50 and over, 401(k), 403(b), 457	$6,500
SIMPLE plans, elective deferral limit	$13,500
SIMPLE Plans, catch-up for age 50 and older	$3,000

2020 Individual Retirement Accounts

IRA Type	**Contribution Limit**	**Catch-Up at 50+**	**Income Limit / Notes**
Traditional nondeductible	$6,000	$1,000	None
Traditional deductible	$6,000	$1,000	If covered by employer plan: $104k-$124k joint $65k-$75k single, HOH If spouse is covered by plan: $196K-$206K
Roth	$6,000	$1,000	$196k-$206k Joint $124k-$139k single, HOH

Roth Conversion	Up to total value of tax deferred retirement accts	N/A	No income limit / Ability to recharacterize (undo) a Roth conversion was eliminated in 2018

Personal Tax Brackets

There were no major changes to the 2020 tax brackets, mainly slight adjustments upward as to what qualifies as the next marginal tax bracket.

Tax Rate	Single	Married, Filing Jointly
10%	$0 to $9,875	$0 to $19,750
12%	$9,876 to $40,125	$19,751 to $80,250
22%	$40,126 to $85,525	$80,251 to $171,050
24%	$85,526 to $163,300	$171,051 to $326,600
32%	$163,301 to $207,350	$326,601 to $414,700
35%	$207,351 to $518,400	$414,701 to $622,050
37%	$518,001 and up	$622,051 and up

Deductions and Exemptions

Again, no large changes from 2019, just a slight upward revision.

Single Filer = $12,400 standard deduction

Joint Filers = $24,800 standard deduction

Personal exemptions were eliminated in 2018.

Capital Gains

Slight adjustments upward in 2020 to what qualified to move to the next marginal rate from the 2019 levels.

Tax Rate	Single	Married, Filing Jointly
0%	$0 to $39,999	$0 to $79,999
15%	$40,000 to $441,449	$80,000 to $496,599
20%	$441,500 and up	$496,600 and up
+3.8% Medicare surtax	$200,001 and up	$250,001 and up

Medical Expense Deductions

In 2017, medical expenses had to exceed 10% of a person's Adjusted Gross Income (AGI) in order to be deductible. 2018 saw a one-year reprieve from that, using the 7.5% standard that was in effect before 2017. Now, the 7.5% hurdle has been extended to be effective in tax years **2019** and **2020**. Thus, come 2021 tax year, we are right back to the 10% hurdle rate.

Alternative Minimum Tax (AMT)

The exemption levels from AMT are now $72,900 for individuals and $113,400 for joint filers, with the phaseout levels being $518,400 for an individual and $1,036,800 for joint filers.

Estate Taxes

For 2019, an individual has a $11,580,000 estate tax exemption. Properly using portability, a married couple can leave $23,160,000 federal estate tax free. For those over the exemption amount, the top federal estate-tax rate is 40%.

Gift Tax Exclusion

Individuals are allowed in 2020 to give to another individual $15,000 without having gift tax issues. Reminder, you can give as many individuals as you wish the $15,000 gift tax free, as the exclusion is per recipient, NOT per giftor.

Federal Entitlement

Social Security beneficiaries will receive a 1.6% cost of living adjustment to their benefits. However, if you are on Social Security and Medicare, some of the raise may be used to pay for a higher Medicare Part B premium, meaning you may see very little of the raise.

Social Security		
SS tax paid on earned income up to $137,700	**% withheld**	**Maximum tax payable**
Employee Pays	6.2%	$8,537.40
Employer Pays	6.2%	$8,537.40
Self-employed pays	12.4%	$17,074.80
Earnings Allowed before Full Retirement Age (FRA)		
Retirement earnings exempt amounts	$18,240 if age under FRA $48,600 during year will reach FRA No Limit after reaching FRA	

Medicare			
Medicare Part B monthly premium for new beneficiary in 2020 = $144.60 **Medicare looks back two years at income to determine if there will be a surcharge based on higher income levels. See below**			
Single 2018 MAGI	**Joint 2018 MAGI**	**2020 Part B Premium**	**2020 Part D adjustment**
$0-$87,000	$0-$174,000	$144.60	$0.00
$87,001-$109,000	$174,001-$218,000	$202.40	+$12.20
$109,001-$136,000	$218,001-$272,000	$289.20	+$31.50
$136,001-$163,000	$272,001-$326,000	$376.00	+$50.70
$163,001-$500,000	$326,001-$750,000	$462.70	+$70.00
Over $500,000	Over $750,000	$491.60	+$76.40