Haynie & Company

Certified Public Accountants & Management Consultants

The SECURE Act Changes IRAs and 401(k) Plans

On December 20, 2019, President Trump signed into law the Further Consolidated Appropriations Act, 2020 (H.R. 1865), which included the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 (the “Act”). The Act included a host of changes to retirement savings and employee benefits. Here’s a summary of what you need to know.

Modifications to the Required Minimum Distribution (RMD) Rules

The age at which retirees must begin to take RMDs from retirement plans and IRAs was increased from age 70 ½ to age 72. Individuals who attain age 70 ½ after December 31, 2019, will not be required to take their RMD until they turn 72. In addition, beginning in 2020, the age restriction (age 70 ½) for contributions to an IRA has been eliminated. However, a taxpayer must still have earned income in order to contribute to an IRA.

Further, payments to most non-spousal beneficiaries must be completed by the 10th calendar year following the year of the participant/IRA owner’s death regardless of whether RMDs begin before or after death. The ten-year rule does not apply to plan/IRA payments made to certain “eligible designated beneficiaries,” including surviving spouses, disabled or chronically ill individuals, minor children of the decedent, and individuals who are not more than 10 years younger than the decedent.

Changes to Eligibility Rules for Tenured Part-Time Employees

For plan years beginning after December 31, 2020, a 401(k) plan is required to maintain a dual eligibility requirement. This means that an employee must complete either:

1. One year of service under the 1,000-hour rule, or
2. Three consecutive years where an employee completes at least 500 hours of service per year.

Changes to Eligibility Rules for Tenured Part-Time Employees

Withdrawals (made after December 31, 2019) of up to $5,000 per birth or adoption from certain employer-sponsored retirement plans and traditional IRAs are permitted for the birth or adoption of the participant’s child for the 1-year period following the birth or adoption. The adopted child must be less than 18 years old, or physically or mentally incapable of self-support. Such withdrawals are not subject to the IRS 10% premature penalty or the federal 20% mandatory withholding requirement.

Increased Tax Credit for Small Employers Who Sponsor Retirement Plans

For tax years beginning after December 31, 2019, the tax credit for retirement plan start-up costs for employers with less than 100 employees was increased from $500 to the greater of:

1. $500, or
2. The lesser of $250 for each eligible non-highly compensated employee or $5,000

Also, for tax years beginning after December 31, 2019, employers with up to 100 employees will be eligible for a credit of $500/year for up to 3 years beginning with the first taxable year for which the employer includes an automatic enrollment provision in a qualified retirement plan.

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Contact Us

Many events can affect your tax situation. With proper planning, you can avoid negative tax effects. Please contact us in advance if you experience the following:

- Pension or IRA distributions
- Sale or purchase of a residence or other real estate
- Significant change in income or deductions
- Retirement
- Job change
- Notice from IRS or other revenue department
- Marriage
- Divorce or separation
- Attainment of age 59 ½ or 70 ½
- Self-employment
- Sale or purchase of a business
- Charitable contributions of property in excess of $5,000