RICHMOND BROTHERS

Time-Sensitive Tax Planning: SECURE 2.0 Effective Dates
[Richmond Refreshers] Closed Captions

Hi, I'm Dan Vredeveld, Senior Financial Advisor, with Richmond Brothers, and I am here today to provide our community with some general education about the Secure Act 2.0.

While the Secure 2.0 act was enacted on December 29, 2022, the effects and changes of SECURE 2.0 continue to roll in.

2024 brings a wave of changes and little-known tax planning opportunities. In fact, there are about 10 changes that become effective in the year 2024. Let's briefly go through them so you know what to expect. Please note that it is possible that additional guidance, including regulations, will be provided over time from the IRS.

1. **IRA catch-up contributions indexed for inflation.**

For 2024, the annual maximum IRA contribution is $7,000 per individual. If you're age 50 or better, you can include a $1000 catch-up contribution, which would allow you to max out at $8,000 per individual. This is a $500 increase from 2023. Note that in the past, catch-up contribution levels for IRAs did not change, but under SECURE Act 2.0, they'll be indexed to inflation beginning in 2024, meaning it could increase every year, based on federally determined cost-of-living increases.

2. **QCD $100,000 limit increased for inflation.**

In 2024, individuals who are 70½ years old or older may use a QCD to donate up to $105,000 to qualified charities directly from an IRA. This change from the initial $100,000 IRA QCD limit set for tax year 2023 reflects Section 307, which indicated the limit will be annually indexed for inflation,

3. **Matching plan contributions can be made on student loan payments.**

The Secure Act 2.0 provides the ability for employers to match workers' student loan payments with a contribution to their 401k, 403, or other retirement account. This will help those who are missing out on available employer matching because they are prioritizing paying off their student debt.

4. **10% Penalty Exceptions:**

Let's say you're facing a serious cash shortfall. One possible solution is to take an early withdrawal from your traditional IRA, simplified employee pension (SEP-IRA) or SIMPLE-IRA. Unless an exception applies, there will be a 10% early withdrawal penalty tax on the taxable portion of a traditional IRA withdrawal taken before age 59½. Historically, there have been more than a dozen ways to sidestep the extra charge. In 2024, The SECURE 2.0 law adds 3 new exceptions to their list.

   a. ***Emergency expenses. For plans and IRAs. $1,000/year.***

The First is Emergency Expenses, which are defined as unforeseeable or immediate financial needs relating to personal or family emergencies. However, this exception is extremely limited. Yes, if a person faces unforeseeable personal expenses or immediate financial needs relating to a personal or family emergency, they may dip into savings. Yes, the account owner can self-certify that the emergency is real. There is no need for an independent financial analysis. But the dollar amount is limited. Only one distribution of up to $1,000 is permitted a year. The taxpayer has the option to repay it within three years. This provision is effective for distributions made after December 31, 2023.

b. ***Employers can offer in-plan emergency savings accounts. $2,500 maximum deferral. Plans only.***

Second, Defined contribution retirement plans would be able to add an emergency savings account that is a designated Roth account eligible to accept participant contributions for non-highly compensated employees starting in 2024. Contributions would be limited to $2,500 annually (or lower, as set by the employer) and the first 4 withdrawals in a year would be tax- and penalty-free. Depending on plan rules, contributions may be eligible for an employer match. In addition to giving participants penalty-free access to funds, an emergency savings fund could encourage plan participants to save for short-term and unexpected expenses.

c. ***Domestic abuse. For plans and IRAs. Limited to $10,000 (indexed).***

Lastly and sadly, domestic abuse is a common enough occurrence that it was included as a 10% penalty exception. Effective in 2024, a new exception is created for victims of domestic abuse that occurred within the previous 12 months by a spouse or domestic partner. Those in need of leveraging this exception can self-certify that they experienced domestic abuse and withdraw the lesser of $10,000, indexed for inflation, or 50 percent of the balance of the account. Distributions taken under the domestic abuse exception can be repaid to the same or another like account over 3 years, and income taxes on repaid dollars will be refunded.

5. **Higher SIMPLE plan limits for deferrals and catch-ups and nonelective contributions.**

For eligible employers with 25 or fewer eligible employees, the employee SIMPLE IRA elective deferral limit for 2024 is $16,000. However, with a recent provision the limit becomes $17,600 and the catch-up deferral of $3,500 becomes $3,850.
Employers are allowed to make an additional nonelective contribution for years beginning after 2023. This additional contribution can be up to 10 percent of compensation but not more than $5,000 per employee.

6. **529-to-Roth IRA rollovers: $35,000 lifetime limit.**

While 529s can be a great tool for some, there have been some downsides to those that decide they won't be attending school or who get financial aid and don't need all of it. Starting in 2024, you'll be able to convert tax- and penalty-free up to a lifetime limit $35,000 in a 529 to a Roth IRA owned by the 529 beneficiary for at least 15 years, subject to annual Roth IRA contribution limits. It is worth nothing that the annual contribution limit and income limits used would be the beneficiary's, not the parent's, and conversions apply only to Roth IRAs, not to traditional IRAs.

7. **No lifetime RMD on plan Roth accounts.**

Thanks to SECURE 2.0, for 2024 and later years, Required Minimum Distributions will no longer be required from designated Roth accounts in employer-sponsored plans. Roth IRAs set up in your name that have been open for at least five years are *exempt* from the RMD rules during your lifetime, allowing your account to accumulate money to pass down to your heirs. But if you *inherit* a Roth IRA, the RMD rules do still come into play.

8. **Surviving spouse may elect to be treated as deceased spouse.**

Secure 2.0 has added options for surviving spouse beneficiaries to be treated as the deceased spouse when inheriting IRAs from their late spouse. This option allows the surviving spouse to use the more advantageous Uniform Lifetime Table to calculate Required Minimum Distributions from the deceased spouse's IRA. The new rules could be particularly beneficial if the younger spouse dies first or the surviving spouse remarries. This could reduce the level of RMDs significantly for the surviving spouse.

9. This last one we want to note isn't a "change" so much for this year BUT it was originally slated to occur in 2024. For those age 50 or better, Secure 2.0 says
   Plan catch-up contributions must go into a Roth account if wages were greater than $145,000 (indexed) in the prior year.

That was supposed to happen this year in 2024 but the IRS delayed that provision until 2026. So, if you're in that position and you still want to put your catch up contribution in your traditional 401(k), you can still do so. Let's say, for example, you make $200,000. If you contribute $20,000 to your 401(k) you're only taxed on the $180,000 – which is the net amount. And, you can do this for 2024 and 2025 still if this makes sense for your situation.

For a quick snapshot of changes impacting your retirement accounts that have recently gone into effect, make sure to download "SECURE 2.0 Effective Dates" from Ed Slott and Company below this video now.

I hope you've found this to be helpful, but please make sure to consult with your own tax and legal advisors before taking any action that may have tax consequences.

Thanks for watching and make sure to share this with a friend who could use this information, too. Here's to being informed, educated and ready to capitalize on changes! Make it a great day!

Sources:

https://www.schwab.com/learn/story/what-to-know-about-catch-up-contributions
https://www.fidelitycharitable.org/articles/secure-act-2-0-retirement-provisions.html#:~:text=Increase%20in%20QCD%20limit%3A%20In,be%20annually%20indexed%20for%20inflation.
https://www.fidelity.com/learning-center/personal-finance/529-rollover-to-roth

https://www.fidelity.com/learning-center/personal-finance/secure-act-2
https://www.irahelp.com/slottreport/new-secure-20-10-penalty-exceptions-domestic-abuse-financial-emergencies
https://www.congress.gov/bill/117th-congress/house-bill/2954/text
https://www.thinkadvisor.com/2023/02/03/secure-2-0-adds-rmd-flexibility-for-surviving-spouses/
https://www.wolterskluwer.com/en/expert-insights/sep-and-simple-iras-and-the-secure-20-act