A Practical Approach: Tax Law Changes in Spending Package

The "Further Consolidated Appropriations Act, 2020" was signed into law by the President on Friday, December 20, and takes effect January 1, 2020. This Act included the "Setting Every Community Up for Retirement Enhancement Act" (the SECURE Act) which modifies many requirements for employer-provided retirement plans, individual retirement accounts (IRAs), and other tax-favored savings accounts. The Act also included the "Taxpayer Certainty and Disaster Tax Relief Act of 2019" (the Disaster Act) which included certain income tax provisions that had expired or were due to expire.

Highlights of the SECURE Act

- The age when taxpayers must begin taking required minimum distributions (RMDs) is raised from 70 ½ to 72 years old for distributions required to be made after December 31, 2019, with respect to individuals who turn 70 ½ after that date.

- The maximum age for traditional IRA contributions has been repealed. Note that if the taxpayer makes a qualified charitable distribution (QCD), the amount of the QCD may be limited by IRA deductions claimed while the taxpayer is over age 70 ½.

- The ability to delay the payment of taxes via the expected lives of beneficiaries (e.g. "stretch IRA") is greatly reduced. Under the new law, the general rule is that when the IRA owner or employee dies, the remaining account balance must be distributed to the designated beneficiaries within 10 years after the date of death.

- Section 529 Plans can now be used to cover registered apprenticeships and a portion of student loans. The new law allows a tax-free distribution from 529 plans to pay principal or interest on a qualified education loan of the designated beneficiary or a sibling of the designated beneficiary, subject to certain limitations and a $10,000 lifetime maximum per individual.

- The kiddie tax rules are changed. Under the new law, the unearned income of children is taxed at the parents' tax rates if the parents' tax rates are higher than the child's rates.

- Other changes from the SECURE Act
    - Penalty-free retirement plan and IRA withdrawals up to $5,000 for expenses related to the birth or adoption of a child are allowed.
    - Certain taxable non-tuition fellowship and stipend payments are now able to be treated as compensation for IRA purposes.
    - The annual limit on the credit for small employer pension plan start-up costs is increased to up to $5,000.
    - Unrelated employers can band together to create "pooled employer plans," which may reduce costs.
    - 401(k) plans must expand coverage for elective deferrals for long-term part-time employees.

Highlights of the Disaster Act

- The exclusion from gross income of discharge of qualified principal residence indebtedness is reinstated for discharges through December 31, 2020.
- The deductibility of mortgage insurance premiums as qualified residence interest for married taxpayers filing jointly with adjusted gross income less than $110,000 (less than $55,000 for married taxpayers filing separately) is reinstated through December 31, 2020.
- The lower 7.5% of adjusted gross income threshold for unreimbursed medical expenses is reinstated through December 31, 2020.
- The above-the-line deduction for qualified tuition and related expenses for higher education, capped at $4,000 for an individual whose adjusted gross income does not exceed $65,000 ($130,000 for joint filers) or $2,000 for an individual whose adjusted gross income does not exceed $80,000 ($160,000 for joint filers), is reinstated through December 31, 2020.
- The nonbusiness energy property credit of 10% of the amounts paid or incurred by the taxpayer for certain windows, doors, skylights, and roofs, as well as credits from $50 to $300 for certain energy-efficient property including furnaces, boilers, heat pumps, water heaters, central air conditioners, and circulating fans, subject to a lifetime cap of $500 is reinstated through December 31, 2020.
- The contractor credit of $1,000 or $2,000 for the construction or manufacture of a new energy efficient home that meets certain criteria is extended through December 31, 2020.
- The 179D deduction, for energy efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems of commercial buildings is extended through December 31, 2020.
- The employer credit for paid family and medical leave is extended through December 31, 2020.

In addition to the above, there are other changes that may affect you. Please reach out to us if you would like more information.

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