WELLS FARGO Advisors

Key IRA Impacts of the 2019 SECURE ACT

SECURE Act | 2020

On December 20, 2019, the SECURE Act (Setting Every Community Up for Retirement Enhancement) was signed into law and as a result, there are some key impacts to retirement accounts beginning in 2020.

Below is a summary of the most notable Individual Retirement Account (IRA) changes:

Increase in Required Minimum Distribution (RMD) Age

- Beginning in tax year 2020, the age to start Required Minimum Distributions (RMDs) from Traditional, SEP and SIMPLE IRAs has been modified from age 70½ to age 72.
- IRA owners who turn age 70½ on or before December 31, 2019 must take their first RMD by April 1 following the year they reach age 70½. Those who turn age 70½ on or after January 1, 2020 their first RMD is due by April 1 following the year they turn age 72.

Repeal of Maximum Age for Traditional IRA Contributions

- Effective for tax year 2020, there is no maximum age restriction for making a Traditional IRA contribution as long as the individual, or spouse if filing jointly, has earned income.

Roth IRA contributions have never been subject to an age limitation. The Act does not affect Roth IRA contribution eligibility.

Modifications to RMD Rules for Inherited IRAs

- For Traditional and Roth IRA owners that die after December 31, 2019, the RMD rules are modified for designated beneficiaries inheriting these IRAs. A designated beneficiary is generally a non-spouse individual, as well as a qualified "look-through" trust and are required to fully distribute the Inherited IRA by the end of the 10th calendar year following the year of the IRA holder's death. Eligible designated beneficiaries can continue to take RMDs based on their single-life expectancy. Eligible designated beneficiaries are:
    1. Surviving spouse of the IRA owner
    2. Disabled or chronically ill individuals
    3. Individuals not more than 10 years younger than the IRA owner, or
    4. Child of the account owner who has not reached the age of majority

Penalty Free Withdrawals for Birth/Adoption Expenses	• Parents can withdraw up to $5,000 from their retirement account to pay for birth or adoption expenses during the one-year period that begins on either the date of birth or the date on which the adoption is finalized. An eligible adoptee means any individual, other than a child of the taxpayer's spouse, who has not attained age 18 or is physically or mentally incapable of self-support. Individuals may also recontribute the amount distributed for this reason to an IRA.
Qualified Charitable Distributions (QCDs)	• Individuals with Traditional IRAs and/or Inherited IRAs who are age 70 ½ and older will still be eligible for QCDs which allows individuals to distribute up to $100,000 per year directly from their IRA to a 501(c)(3) nonprofit with no federal income tax consequences. One change as a result of the Secure Act is if the client makes a deductible Traditional IRA contribution, the amount of their eligible QCD is reduced by the amount of any deductible contribution for that tax year.

Additional Information to Note

Passage of the SECURE Act also made various changes to qualified employer retirement plans (QRPs) such as making part-time workers eligible to participate in 401(k) plans if they have worked at least 500 hours a year for 3 consecutive years, provides employer plans more flexibility in offering lifetime income products as investments, as well as allows greater flexibility for multiple employers (generally small employers) to band together to offer a retirement plan to employees.

Stay up to date

At Wells Fargo Advisors, we know that the changes to your IRA due to the SECURE Act may leave you with questions. We welcome the opportunity to work with you and your legal and tax professionals to determine how these changes impact your retirement and estate planning goals.

This material is provided for informational purposes only. It is based on tax information and legislation as of December 2019. Investors need to make their own decisions based on their specific investment objectives, financial circumstances, and tolerance for risk.

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