AMG National Trust Bank

TAX PERSPECTIVES UPDATE

January 2020

Since the November release of AMG's Tax Perspectives for 2019, Congress passed the Consolidated Appropriations Act of 2020, in December. The main part of the legislation stipulates how the government will appropriate federal budget monies across various departments and programs. Also included in the legislation are a number of tax law changes that may affect individual taxpayers.

We encourage you to discuss personal implications of the following changes with your AMG financial advisor.

SECURE Act. The Setting Every Community Up for Retirement (SECURE) Act is effective January 1, 2020. It establishes several new retirement plan provisions such as: 1) allowing long-term employees who work part time to participate in 401(k) plans; 2) penalty-free withdrawals for birth or adoption of a child; 3) increased tax credits against start-up costs of small business retirement plans; 4) extended the establishment date for solo defined benefit/defined contribution plans to the employer's tax filing deadline, including extensions. The SECURE Act also modifies a number of IRS taxing requirements for qualified retirement plans and IRAs.

Ask your AMG financial advisor about utilizing AMG's Retirement Plan Services to assist you with self-employed and small business owner retirement plans.

- Repeals the maximum age for traditional IRA contributions. The ability to make IRA contributions is now consistent with ERISA qualified retirement plans, which allow an employee to make contributions to the company's plan as long as he or she is still working.
- Raises from 70½ to 72 the age to begin minimum distributions. This applies to distributions after December 31, 2019, by individuals who attain age 70½ after that date.
- The payout period is limited to 10 years for many nonspouse beneficiaries of account owners who die after 2019. The life expectancy distribution method can be used only by nonspouse beneficiaries who are: 1) minors; 2) disabled; 3) chronically ill; or 4) not more than 10 years younger than the deceased account owner. (For minors, the life expectancy exception rule only applies until the child reaches the age of majority; at that point, the 10-year rule applies.) The life expectancy distribution rule still applies to spouse beneficiaries.

Tax Extenders (aka Tax Incentives). Congress has reinstated some expired tax incentives. Historically, the tax extender provisions have been available only for a period of two years at a time. While some have been made permanent, others were allowed to expire with the passage of the Tax Cuts & Jobs Act (TCJA). Tax incentives previously made permanent are: 1) Option of avoiding taxes on required IRA distributions up to $100,000 if the money is transferred directly to a qualified charity. 2) Automatic inflation adjustment to the alternative minimum tax (AMT) exemption. Here are two notable tax extenders that may affect individual taxpayers.

- **Medical Expense Deduction Floor.** Under the TCJA, beginning in 2019 qualified medical expenses had to exceed 10% of adjusted gross income (AGI) to be eligible as an itemized deduction. This AGI threshold has now been reduced to 7.5% for 2019 and 2020—the same threshold that was applicable for 2017 and 2018.
- **Nonbusiness Energy Property Credits.** The credit for personal energy property installed on or in the taxpayer's principal residence has been extended through 2020. This provision, which expired on December 31, 2017, has been extended retroactively. The allowable credit is equal to 10% of the cost of qualified energy-efficient improvements plus 100% of the cost of residential energy property expenditures. The qualifying personal energy property must be new (not used), and the principal residence must be located in the United States. Currently it is a $500 lifetime credit, which started accumulating for tax years after 2005.

"Kiddie" Tax. The kiddie tax applies to unearned income for children. Before the TCJA, once the child's unearned income exceeded a threshold ($2,200 in 2019; $2,100 in 2018), the unearned income was taxed at the parents' marginal tax rate, with additional considerations given to the tax situations of parents and unearned income of other siblings. The TCJA tried to simplify the kiddie-tax calculation by: 1) taxing the child's unearned income (above the threshold) using the estate and trust tax rate schedule instead of the parents' tax rate schedule; and 2) by removing the requirement to consider the tax situation of other family members. The TCJA revised kiddie tax had negative tax consequences for certain groups of children.

The kiddie tax provisions of the TCJA have now been repealed, effective for taxable years after December 31, 2019. However, a taxpayer may elect to apply this kiddie tax reversal to taxable years that begin in 2018, 2019, or both years. An amended tax return must be filed to change the kiddie tax calculation for 2018.

In addition to the above legislative tax changes, in November 2019, the IRS issued proposed regulations with updated life expectancy and distribution period tables to reflect current mortality data. The revised tables with longer life expectancies do not apply to required minimum distributions (RMDs) until 2021. However, the distribution provisions in the SECURE Act are effective January 1, 2020.

Updated Life Expectancy and Distribution Period Tables. Three IRS tables are used for determining RMDs from qualified retirement plans and IRAs.

- Table III—Uniform Lifetime Table is used to calculate RMDs for most account owners.
- Table II—Joint Life and Last Survivor Expectancy Table is used to calculate RMDs when the account owner's sole designated beneficiary is a spouse who is more than 10 years younger.
- Table I—Single Life Expectancy Table is used to calculate RMDs for beneficiaries who may use the life expectancy distribution rule.

Table III—Uniform Lifetime Table. For each year, the account value as of December 31 is divided by the life expectancy factor associated with the account owner's age during the year the RMD is due. The current life expectancy factor for an individual age 72 is 25.6; in 2021, the proposed factor will increase to 27.3.

Table I—Single Life Expectancy Table. The account value as of December 31 also is used in calculating the beneficiary's RMD. The initial life expectancy factor to be used in calculating the first RMD for an Inherited IRA is based on the age of the oldest beneficiary in the year following the death of the account owner. For each subsequent year of RMD calculation, the initial life expectancy factor is reduced by one (1). The current life expectancy factor for an individual age 72 is 15.5; in 2021, the proposed factor will increase to 17.1.

The proposed regulations include transition rules for recomputing RMDs for beneficiaries who began RMDs prior to 2021. It is important to keep in mind that with the passage of the SECURE Act, the life expectancy distribution rule applies only to select nonspouse beneficiaries when the account owner dies after December 31, 2019.

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