Lighthouse Financial Management, LLC
2020 Tax Update

On December 20, 2019, Congress passed, and the President signed the Setting Every Community Up for Retirement Enhancement (SECURE) Act into law.

SELECTED KEY PROVISIONS

Extended Tax Provisions Through December 31, 2020

- Qualified Principal Residence Indebtedness
  - Excludes from gross income the discharge of qualified principal residence indebtedness. This provision expired Dec. 31, 2017 and has been extended retroactively.
- Mortgage Insurance Premiums
  - Allows the treatment of mortgage insurance premiums as qualified residence interest, which permits a taxpayer whose income is below certain thresholds to deduct the cost of premiums on mortgage insurance.
- Medical Expense Deduction
  - The 7.5% (instead of 10%) adjusted-gross-income (AGI) floor for medical expense deductions was set to apply for the tax year 2019; however, the Act extended the 7.5% rate to 2020.
- Qualified Tuition
  - Provides an above-the-line deduction for qualified tuition and related expenses. This provision expired Dec. 31, 2017 and has been extended retroactively
- Energy Credits
  - Various incentives for energy production and efficiency provisions expired Dec. 31, 2017, and have been extended retroactively.

Retirement Plan Changes (Generally effective for tax years beginning after December 31, 2019)

- Required Minimum Distributions
  - Increases the age after which required minimum distributions from tax-deferred retirement accounts must start to 72 (from 70 ½). This provision becomes effective for distributions required to be made after Dec. 31, 2019.
  - The provision allows for qualified charitable distributions from IRAs to begin at age 70 ½ allowing taxpayers to make up to $100,000 of pre-tax contributions for the year.
- Small Business Pension Start-Up Costs
  - Increases the credit for plan start-up costs making it more affordable for small businesses to set up retirement plans. The credit applies for up to three years.
- Automatic Enrollment in Employer 401(k) Plans
  - The legislation creates a new tax credit of up to $500 per year to employers to defray startup costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment.
  - The credit is in addition to the plan start-up credit allowed under present law and would be available for three years.
  - The credit would also be available to employers that convert an existing plan to an automatic enrollment design.

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- Part-Time Employees
  - Under current law, employers generally may exclude part-time employees (employees who work less than 1,000 hours per year) when providing a defined contribution plan to their employees. Except in the case of collectively bargained plans, the bill will require employers maintaining a 401(k) plan to have a twofold eligibility requirement under which an employee must complete either a one year of service requirement (with the 1,000-hour rule) or three consecutive years of service where the employee completes at least 500 hours of service.
- Inherited IRA's
  - For IRAs inherited from original owners who have passed away on or after January 1, 2020, the new law requires many beneficiaries to withdraw assets from an inherited IRA or 401(k) plan within ten years following the death of the account holder.
  - Exceptions to the 10-year rule include assets left to a surviving spouse, certain minor children, a disabled or chronically ill beneficiary, and beneficiaries who are less than 10 years younger than the original IRA owner or 401(k) participant.
- Plans Adopted by Tax Filing Date May be Treated as in Effect as of End of Year
  - The long-standing rule that a plan must be adopted by the last day of the plan year has been modified. Under the SECURE Act, qualified retirement plans adopted before the due date of the tax returns (including extensions) for the taxable year will be treated as having been adopted on the last day of the plan year.
- IRA Contributions
  - Repeals the maximum age for IRA contributions (currently 70½).

Other Provisions

529 Funds can now be used to pay down up to $10,000 of Student Loan Debt

- The Act expands the use of 529 education savings accounts to cover costs associated with registered apprenticeships, up to $10,000 of qualified student loan repayments, and certain expenses related to elementary and secondary education, including some homeschooling expenses. Check your individual state's 529 Plan to confirm that these new rules will apply.

Penalty-Free Withdrawals in the Case of Birth or Adoption

- Under the SECURE Act, a defined contributions plan, such as a 401(k) or an IRA may permit penalty-free withdrawals for up to $5,000 for certain expenses related to the birth or adoption of a child.