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Balance sheet

Recent Income Tax Legislation

By Richard D. Hillabrand, CPA

Late last year, Congress passed last-minute legislation that might affect your tax situation. The good news is that many of the provisions are taxpayer-friendly. Here is a quick look at some of the more important changes that occurred.

Extenders: Many beneficial (and popular) tax breaks expired at the end of 2017. As a result, we were unable to consider them last year as we prepared your 2018 tax return. Fortunately, recent legislation has retroactively extended over 30 tax provisions, generally through 2020. This means that we might be able to apply some of these provisions to your already-filed 2018 tax return. We will work with you to determine if the anticipated tax benefits would justify the cost of filing an amended return.

Some of the more popular tax breaks recently extended by Congress include the following:

1. The Tax Credit for energy-efficient improvements to your principal residence.
2. The two-wheeled plug-in electric vehicle credit.
3. The deduction for mortgage insurance premiums associated with a principal residence.
4. The deduction for qualified tuition and related expenses.

Please let us know if you think any of those tax breaks would apply to you.

Changes to the Retirement Rules: Congress has made significant changes to the retirement rules that make it easier to increase your savings. Before 2020, traditional IRA contributions were not allowed once you turned 70 ½. Starting in 2020, the new rules allow an individual of any age to make contributions to a traditional IRA, as long as he or she has compensation. In addition, the new law increases the age after which required minimum distributions from certain retirement accounts must begin from 70 ½ to 72.

Partial Elimination of Stretch IRAs: For deaths of plan participants or IRA owners occurring before 2020, beneficiaries (both spousal and nonspousal) were generally allowed to stretch out the tax-deferral advantages of the plan or IRA by taking distributions over the beneficiary's life or life expectancy (in the IRA context, this is sometimes referred to as a "stretch IRA").

However, for deaths of plan participants or IRA owners beginning in 2020 (later for some participants in collectively bargained plans and governmental plans), distributions to most nonspouse beneficiaries are generally required to be distributed within ten years following the plan participant's or IRA owner's death (10-year rule). So for those beneficiaries, the "stretching" strategy is no longer allowed.

Exceptions to the 10-year rule are allowed for distributions to (1) the surviving spouse of the plan participant or IRA owner; (2) a child of the plan participant or IRA owner who has not reached unearned income of children is taxed under the per-TCJA rules, and not at trust/estate rates. And starting retroactively in 2018, the new rules also eliminate the reduced AMT exemption amount for children to whom the kiddie tax rules apply and who have no unearned income.

Penalty-free Retirement Plan Withdrawals for expenses related to the birth or adoption of a child: Generally, a distribution from a retirement plan must be included in income. And, unless an exception applies (for example, distributions in case of financial hardship), a distribution before the age of 59 ½ is subject to a 10% early withdrawal penalty on the amount includible in income.

Starting in 2020, plan distributions (up to $5,000) that are used to pay for expenses related to the birth or adoption of a child are penalty-free. That $5,000 amount applies on an individual basis, so for a married couple, each spouse may receive a penalty-free distribution up to $5,000 for a qualified birth or adoption.

These changes are important and could have significant impact on your taxes. If you have any questions, or would like to discuss tax-planning opportunities for the new year, please give us a call.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.

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