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WEALTH ADVISORS



SECURE 2.0 Act Summary

In 2022, the SECURE 2.0 Act was passed into law. This legislation provides certain changes that may help many retirees and those planning for retirement. On April 16, 2024, the IRS extended the requirement to take distributions from inherited IRAs through 2024, amending the previous 2023 deadline for this requirement.

Please note that by not taking any applicable inherited IRA distribution again in 2024, the risk increases of higher incomes (and therefore higher tax brackets) in future years, as the entire balance of the inherited IRA will need to be distributed over less of a time frame.

Applicable beneficiaries should plan on taking a distribution in 2025, assuming the IRS does not again extend this deadline.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0, which was approved at the end of 2022, is a group of retirement reforms intended to expand and increase retirement savings. The Act builds on prior legislation passed in 2019 and includes a wide range of provisions to help both older and younger workers, including further increasing the age at which required minimum distributions must be made and enabling employers to “match” student loan payments with retirement plan contributions.

Here are some key SECURE Act 2.0 provisions to note and review with a financial advisor as you plan.

2023

Changes to Required Minimum Distribution (RMD) rule

- The age at which owners of retirement accounts must start taking RMDs increased to 73 (from 72). If you turned 72 in 2022 or earlier, you would have needed to continue taking RMDs as scheduled.
- Planning Point: If you turned 72 in 2023 but did not take your RMD, you can either take your first RMD by December 31, 2024 (the year in which you turn 73), or you can delay the RMD until April 1, 2025. If you delay the first RMD until 2025, you will need to take two RMDs in 2025.
- The penalty for not taking an RMD decreases to 25% of the amount not taken (from 50% previously). The penalty is reduced to 10% if the account owner withdraws the RMD amount not previously taken and submits a corrected tax return in a timely manner.

Qualified Charitable Distribution to Split Interest Entity

- QCDs are now allowed to Charitable Remainder Trusts (CRUTs and CRATs) and also Charitable Gift Annuities. Such a QCD may only be made once in a lifetime, limited to \$50,000.

SIMPLE and SEP Roth IRAs

- After-tax contributions to a SIMPLE Roth IRA or a SEP Roth IRA are now allowed.

Employer Matching Contribution as Roth

- Matching employer contributions are allowed to be treated as Roth contributions. If so, these contributions are treated as taxable income to the employee.

Increased Tax Credit for New Pension Plan Start-Up Costs

- For employers with 50 or fewer employees, the credit is increased from 50% to 100% of the qualified costs incurred in the first three years of starting up a new plan. The credit remains limited to \$5,000 per year. Employers with 51 to 100 employees remain eligible for the credit of 50% of qualified start-up costs for the first three years, with a maximum credit of \$5,000 annually.

Employer Contribution Credit for Contributions to a Retirement Plan

- Beginning in 2023, small employers can claim a credit for the employer contribution for the first five tax years starting when the plan is set up. There is a \$1,000 per employee cap. 100% of the employer contribution can be claimed in the first and second tax years; 75% in the third year; 50% in the fourth year; and 25% in the fifth year (all subject to the per-employee cap). For employers with 51 to 100 employees, the credit is reduced by 2 percent for each employee over 50. No credit is allowed for employer contributions on behalf of employees with 2023 wages that exceed \$100,000 or if the employer has more than 100 employees.

2024

New Rules for Inherited IRAs

- Prior to the original SECURE Act of 2019, beneficiaries of inherited IRAs were able to take distributions over the balance of the beneficiaries' expected lifetime. This became known as a "stretch" IRA.
- The 2019 SECURE Act established three categories of beneficiaries for IRAs. One category caused a significant amount of confusion (the "noneligible designated beneficiary" category), which includes most nonspouse beneficiaries such as children over age 21 and grandchildren.
- For deaths occurring in 2020 or later, the ability of these beneficiaries to "stretch" the distributions over the beneficiaries' lifetime was limited with a 10-year payout rule created. If the account owner dies after their RMDs have begun, any noneligible designated beneficiary must generally take a distribution each year through the 10th year when the account must be fully distributed.
- Due to the confusion mentioned above, the IRS waived the requirement to take distributions from inherited IRAs in 2021, 2022, 2023, and 2024. Applicable beneficiaries should plan on taking a distribution in 2025.
- Spousal beneficiaries and minor children up to age 21 may continue to "stretch" the RMDs.

Inflation Adjustment for Qualified Charitable Distributions (QCDs)

- The \$100,000 limit on the annual QCD amount has been raised to \$105,000 for QCD and is now indexed for inflation, rounded to the nearest \$1,000.
- Planning Point: The ability to make contributions via a QCD remains most beneficial to taxpayers who do not itemize since it reduces the taxpayer's gross income with no corresponding change in deductions.

SIMPLE Plans – Increased Limits

- Additional contributions up to the lesser of \$5,000 or 10% of an employee's compensation are allowed if made to employees on a uniform basis. The 2024 limits of \$16,000/\$3,500 for deferrals/catch-up contributions may be increased 10% for plans offered by an employer with 25 employees or less. If the employer has 26-100 employees, the higher contribution limits are allowed if the plan provides a 4% match or a 3% nonelective contribution.

Change to Roth RMD Rules

- While Roth IRAs are not subject to the RMD rules, Roth-type employer plans (such as 401(k) plans or 403(b) plans) were. Roth-type employer plans are no longer subject to RMD rules during the lifetime of the owner.

Excess 529 Savings Plan Balances May Be Rolled Over to a Roth IRA

- Distributions of 529 funds can be rolled directly into a Roth IRA, subject to the following rules:
 - The 529 plan must have been open for more than 15 years.
 - No rollover can consist of funds contributed within five years prior to the rollover.
 - No more than \$35,000 can be rolled from a 529 plan to a Roth IRA over the lifetime of the 529 plan beneficiary.
 - No more than \$6,500 may be rolled from a 529 plan to a Roth IRA in any one year (the annual amount maxes out at the Roth IRA contribution limit less the amount contributed to an IRA or a Roth IRA already that year).

Early Distribution Exceptions

- Withdrawals from tax-deferred accounts such as 401(k)s and IRAs before age 59 1/2 are generally subject to a 10% early distribution penalty. There have historically been several exceptions to this penalty. There are now two new exceptions:
 - Domestic abuse – The 10% penalty does not apply to an early distribution if the account holder certifies that they have been the victim of domestic abuse during the preceding one-year period. The penalty-free amount may not exceed the lesser of \$10,000 or 50% of the account value.
 - There is a one-time penalty-free distribution of up to \$1,000 for personal or emergency expenses. No further penalty-free distributions are allowed for a three-year period unless certain exceptions are met.

Higher Catch-Up Contributions for IRAs

- The \$1,000 catch-up contribution limit for people aged 50 and over with IRAs is now indexed for inflation. Note that, though it is now indexed for inflation, it remains at \$1,000 for 2024.

2025 and later

Higher Catch-Up Contributions

- Taxpayers from ages 60 through 63 will be able to make enhanced catch-up contributions of up to \$10,000 annually to an employer-sponsored plan. This amount will be indexed for inflation.
- The current catch-up amount for people age 50 and older is \$7,500. This remains but is subject to the following new rule: Beginning January 1, 2026 (this date was previously January 1, 2024), if the employee earned more than \$145,000 in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars. This will cause some tax pain but in the long run it may be beneficial.

Automatic Enrollment

- Beginning in 2025, plan sponsors will need to provide automatic enrollment in most 401(k) and 403(b) plans. Automatic enrollment will not be required for SIMPLE 401(k) or SIMPLE IRA plans.

Further Changes to RMD Rules

- Starting in 2033, the law pushes the age at which RMDs must start to 75. You can always take your distributions earlier, but the extra delay allowed in taking your first RMD may help by further deferring the payment of tax.





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