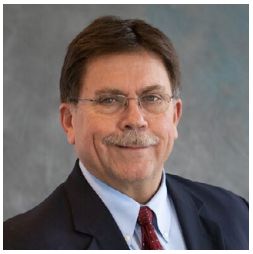
CG Financial Services

Navigating the Secure 2.0 Tax Act

A COMPLETE GUIDE

Leveraging eight changes to The Secure 2.0 Act in 2022 that can help maximize retirement savings.



by Ken Klein

The Secure 2.0 Act of 2022 builds on the 2019 Act to better address the challenges that millions of Americans face in saving for retirement. With 92 new provisions, including changes to catch-up contributions and the age RMDs begin, the new Act was passed in December 2022 and aims to provide more flexibility and savings opportunities for retirement planning.

With that in mind, I wanted to discuss eight of the major changes to the Act that CG Financial clients can take advantage of to maximize their retirement savings:

1. Rollovers Permitted From 529 Plans to Roth IRAs

Suppose you're already thinking about your children's or grandchildren's future education. In that case, you may be saving in a tax-advantaged 529 plan, meaning you'll be reaping tax benefits while saving for education expenses.

Prior to the updated Act, any residual funds withdrawn by the beneficiary when the 529 plan was closed were taxable. The earnings portion of the withdrawal would be subject to income tax and, potentially, a 10% penalty tax on the beneficiary's income tax return.

The Act now allows for the transfer of funds (up to $35,000) from a Section 529 plan into a Roth IRA in the beneficiary's name once they've completed their education.

The assets in a Roth IRA grow tax-free and aren't taxed when withdrawn no matter what, unlike 529 plans where withdrawals must be used for qualified educational expenses.

As one of the requirements of the 529 plan is that it must have been in place for 15 or more years, it's important to get the timing right for your children or grandchildren. If we assume, for example, that a student will graduate from college at 22 or 23, a 529 plan would need to be opened by the age of 7 or 8 to meet the 15-year requirement.

CG Financial's investment advisors can assist you in calculating how best to fund your 529 plan to give your children or grandchildren the benefit of converting to a Roth IRA as they finish their education and start their adult lives.

2. No More RMDs for Roth 401(k)s

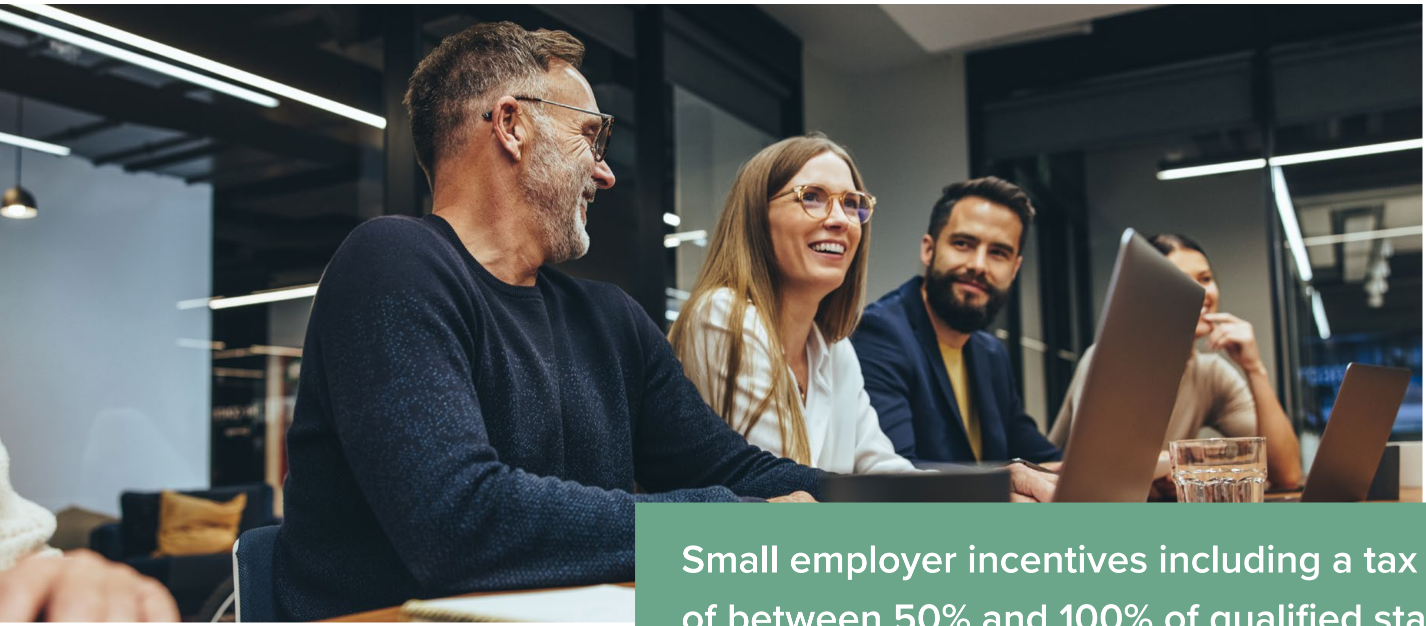
For taxable years beginning after December 31, 2023, Required Minimum Distributions (RMDs) are no longer required for 401k plan participants who have a portion of their plan allocated to Roth.

Before this rule change, if you were required to take a distribution from your Roth funds within your employer's 401k retirement plan, you would invest those funds in an account that would generate taxable dividends, interest, or capital gain income. You'd then, of course, be liable to pay income tax. Now, your funds can remain in the 401k and continue to grow, income tax-free.

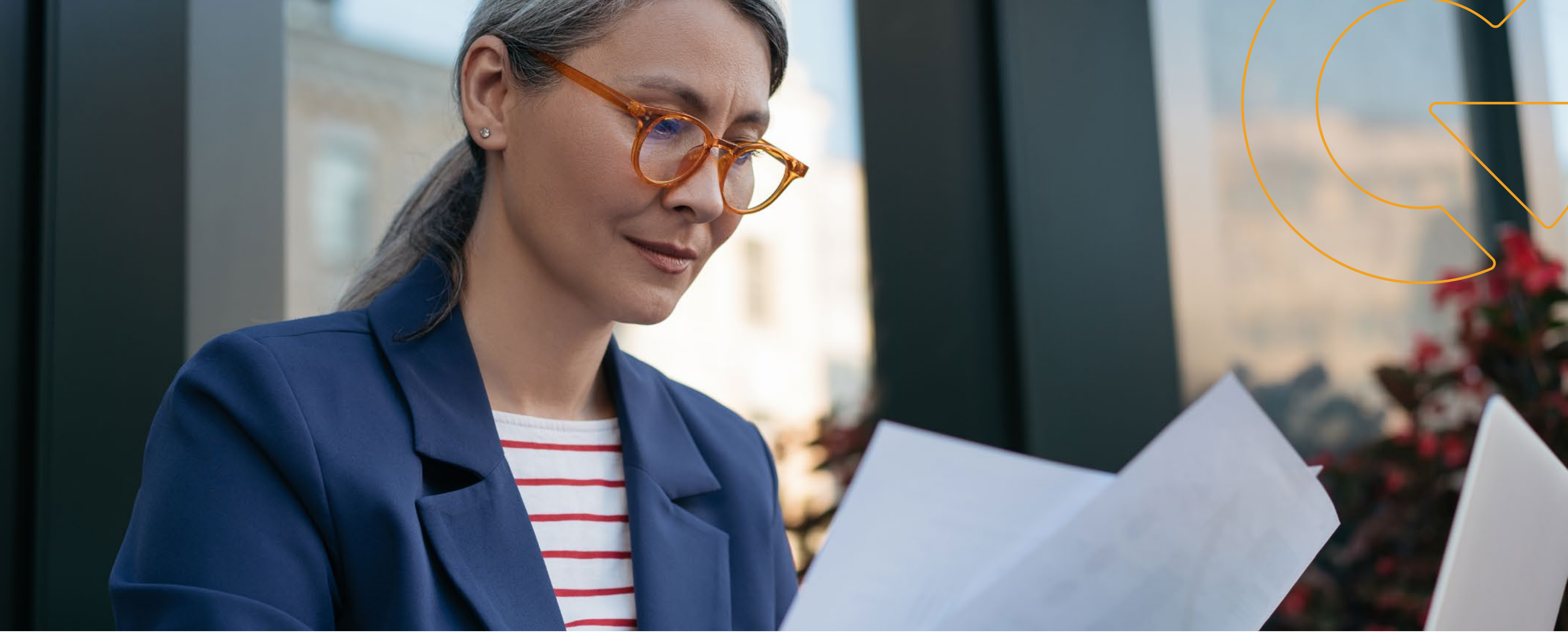
3. Small Businesses Encouraged to Offer Retirement Plans

The Secure 2.0 Act offers new incentives for small employers (up to 50 employees) to offer retirement benefits. With a tax credit of between 50% and 100% of qualified start-up costs, subject to an annual limit of $5,000, this change should help smaller companies attract and retain employees.

This change is particularly beneficial now when many companies find attracting and hiring qualified employees challenging. The tax credit remains 50% of qualified start-up costs for employers with 51-100 employees.



Small employer incentives including a tax credit of between 50% and 100% of qualified start-up costs should help smaller companies attract and retain employees.



CG Financial has a great deal of expertise in the area of retirement plan design and administration. If you're wondering whether a new retirement plan would make economic sense for your company, our specialist team can prepare a cost/benefit analysis that's unique to your business.

Employers Can Terminate a SIMPLE IRA in Return for a 401(k)

For Plan years beginning after December 31, 2023, an employer can terminate a SIMPLE IRA mid-year and replace it with a Safe Harbor 401k Plan.

Previously, the SIMPLE IRA would have had to have been in existence for two years before it could be terminated. If it was terminated within two years of when it was set up, the termination would be subject to a penalty.

This change should benefit both employees and employers, with employees able to accumulate greater retirement benefits and employers enjoying more tax advantages.

5. An Increase in the RMD Age

Before the Secure Act of 2019, the age at which RMDs began was 70½, and the 2019 Act increased that age to 72. The Secure 2.0 Act raises the age again, depending on when you were born:

- For individuals born in 1951 through 1959, the RMD age is 73
- For individuals born in 1960 or later, the RMD age is 75

This change in the law allows you to delay IRA distributions one to three years, which, in turn, allows the investments in your IRA accounts to grow tax-deferred for those additional years.

In most cases, it's more tax efficient to use non-retirement funds to pay for living expenses. That means if you're in the position to do that and delay RMDs until your new RMD age, you'll certainly see the benefits. We can talk you through what's more beneficial for you, based on your individual circumstances.

6. Larger Catch-Up Contributions to 401k Plans

Catch-up contributions allow people aged 50 and over to contribute more to their retirement plans – a way of 'catching up' if they weren't able to contribute as much as they could have in previous years.

The Act has increased those catch-up contributions, effective for tax years beginning after December 31, 2024. The limit is increased to the greater of $10,000 or 50% more than the regular catch-up limit (which was $7,500 for 2023). This rule applies to individuals who are aged between 60 and 63. The catch-up amounts will be indexed by inflation after 2025.

Catch-up contribution limits will also change for both Traditional and Roth IRAs, with their $1,000 catch-up limit to be indexed by inflation for tax years starting in 2024.

We believe in our advisors working closely with their clients' tax professionals. This coordinated effort allows clients to benefit from overlooked tax law provisions.

7. Taking Advantage of The 0% Capital Gains Tax

For several years, taxpayers have been able to avoid paying income taxes on long-term capital gains if they meet certain conditions. For the 2023 tax year, a married couple filing a joint income tax return can avoid paying income tax on their long-term capital gains if their taxable income is less than $89,450.

Retired individuals who can benefit from this provision are typically those who are using their non-retirement accounts to pay for their living expenses, and who aren't taking distributions from their retirement accounts because they haven't yet reached the RMD age.

Here at CG Financial, we believe in our advisors working closely with their clients' tax professionals. This close working relationship is especially necessary for taxpayers who are in this position because it takes a coordinated effort between the tax preparer and the CG Financial advisor to benefit from this often overlooked tax law provision.

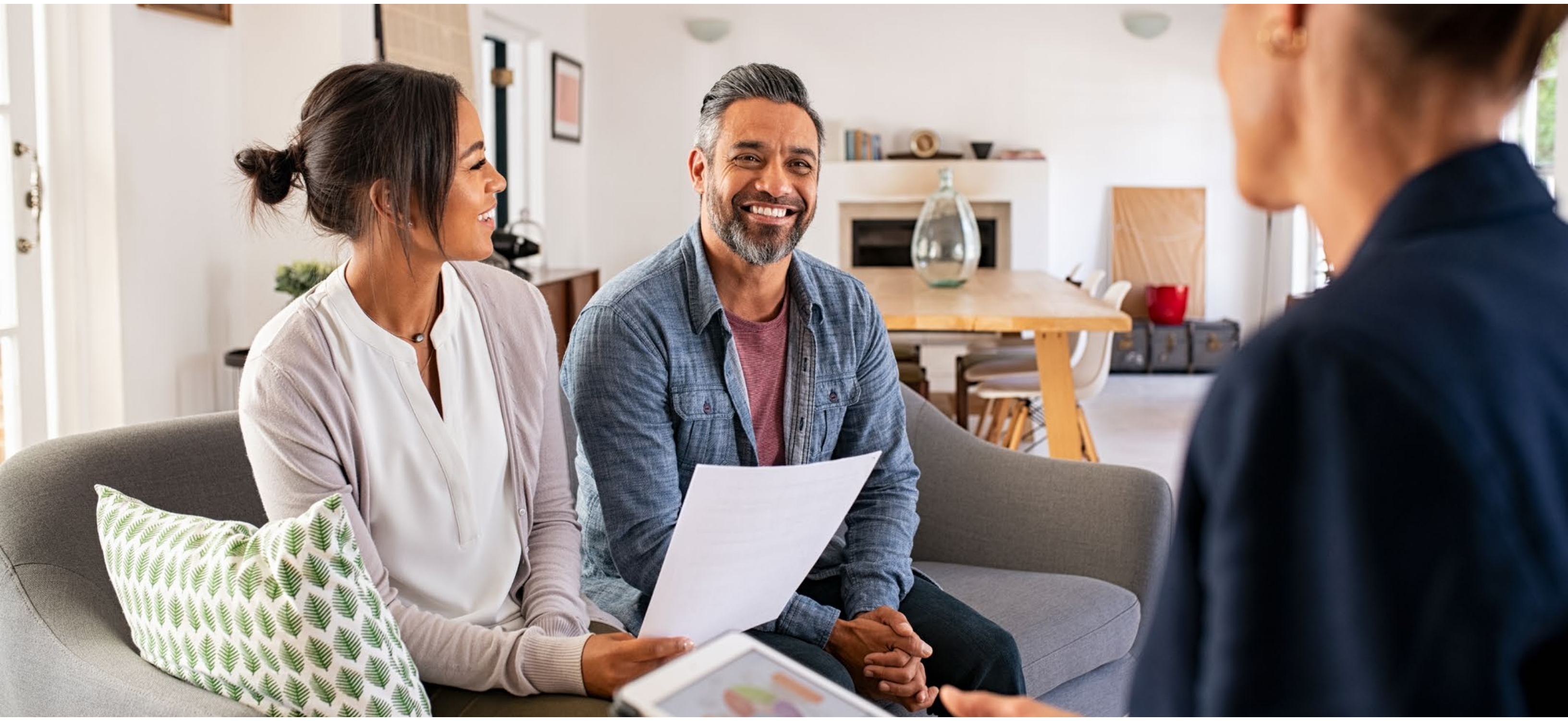
8. Simple Roth IRAs and SEP Roth IRAs Are Now Permitted

Prior to the Secure 2.0 Act, contributions to Simple retirement plans and SEP retirement plans could only include pre-tax funds and not have a designated ROTH IRA account. The Roth designation is now available to both, beginning January 1, 2023.

The tax-free benefits which go along with the “Roth” designation are very attractive for individuals who are in lower income tax brackets, as well as for younger taxpayers who have a long period of time before they might need to withdraw funds from a Roth-designated retirement account.

At CG Financial Services, we can help you navigate and take advantage of the implications of the Secure 2.0 Act. We can help you decide if it’s better for you to make Roth or tax-deductible contributions to your Roth or SEP IRA, for example.

In fact, we’ll work with you to make sure your entire retirement journey is uniquely yours, aligned perfectly with your individual goals, with strategies that let you relax and look forward to the retirement you deserve. Get in touch with one of our advisors to find out more about our retirement and lifestyle planning process.



CG
Financial
Services

info@mycgfinancial.com
(517) 899-4759 • mycgfinancial.com