KANAWHA
CAPITAL MANAGEMENT
First Quarter 2020

This Quarter's Highlights

- RMD Beginning Age Increases to 72
- Qualified Charitable Distribution Age Remains 70½
- The End of the "Stretch" IRA
- Eligible Designated Beneficiaries
- IRA Contributions Beyond Age 72
- Planning Strategies Under the New Rules
- Consult Your Trust & Estate Attorney and Tax Accountant
- Other Miscellaneous SECURE Act Provisions

Kanawha Currents

The Secure Act: New Retirement Account Rules

Recently signed legislation under the SECURE Act will impact current Individual Retirement Account (IRA) owners and their future beneficiaries. The new rules increase the Required Minimum Distribution (RMD) beginning age and bring to an end the popular "stretch" IRA strategy for most non-spouse beneficiaries. Additionally, there will no longer be an age cap on IRA contributions for those working beyond their RMD beginning age. Retirement account owners and beneficiaries should become familiar with the new rules to determine if any planning adjustments are warranted.

RMD Beginning Age Increases to 72

Prior to the SECURE Act, most retirement account owners had to begin annual RMD's once they attained age 70½. The new law raises the RMD beginning age to 72. An IRA owner who turned age 70 in the second half of 2019 will now be able to defer the initial RMD withdrawal until 2022, the year he or she reaches age 72. Individuals technically have until April 1 of the year after turning 72 to take their initial distribution. This is often not an optimal tax approach, however, as one would also need to take the subsequent year's distribution by the end of that same year, potentially "doubling up" their retirement distributions in one calendar year. It is important to note that individuals who reached 70½ in 2019 and began their RMD's must continue to take an RMD in 2020, even though they will not turn 72 until 2022.

Qualified Charitable Distribution Age Remains 70½

The Qualified Charitable Distribution (QCD) remains in place under the new rules. And even though the age to begin RMD's has increased to 72, the eligibility age for QCD's remains at 70½. IRA owners age 70½ and older will continue to be allowed to make gifts of up to $100,000 directly from their IRA to qualified charities and count these gifts towards their RMD (if at or above their RMD beginning age). The donation is not claimed as a charitable deduction but the IRA distribution does not count as taxable income as it would otherwise be treated. This ensures 100% of the charitable contribution is made pre-tax. Note that QCD's will be reduced by any deductible traditional IRA contributions in a given year.

The End of the "Stretch" IRA

An undesirable outcome of the SECURE Act is the end of the "stretch" IRA for most non-spouse retirement account beneficiaries. Non-spouse beneficiaries had been able to "stretch" mandatory annual distributions over their lifetimes. Beginning on January 1, 2020, most non-spouse beneficiaries will be forced to empty their inherited accounts by the end of the 10th year following the death of the original retirement account owner. These inherited IRA beneficiaries will no longer be required to take annual minimum distributions, but their accounts must be fully withdrawn by the end of the 10-year period. Those individuals who inherited IRA's from decedents who died prior to January 1, 2020 will not be subject to the new rules and can continue to "stretch" distributions over their lifetimes. Their own beneficiaries, however, will be subject to the new 10-year rule.

Eligible Designated Beneficiaries

Certain "Eligible Designated Beneficiaries" are exempt from the new 10-year rule. In addition to spouses, these include individuals who are disabled, chronically ill, beneficiaries who are not more than 10 years younger than the decedent, and certain minor children. The latter only applies to minor children of the original account owner (not their grandchildren). Minor children will take regular annual distributions based on their life expectancies only until they reach age of majority, at which point the 10-year distribution rule will begin. For example, let's assume a minor child, age five, inherits an IRA from her deceased father in 2020. The daughter will take annual RMD's beginning in 2021 and until her age of majority. At that point, she will begin the 10-year "clock" and have the account fully distributed by the end of the 10-year period.

IRA Contributions Beyond Age 72

There is no longer an "old" age restriction for IRA contributions. Under the SECURE Act, individuals who are still working and earning income beyond their RMD age of 72 will be allowed to make IRA contributions. One must still have earned income and will be subject to standard income limitations if the worker or their spouse is an active participant in an employer retirement plan.

Planning Strategies Under the New Rules

Given the end of the "stretch" IRA and the elimination of annual RMD's, there may be planning opportunities for many inherited IRA beneficiaries. Under the new rules, individuals who are not "Eligible Designated Beneficiaries" are afforded the flexibility to take as little or as much as they wish annually, as long as the account is emptied by the end of the 10-year period. For example, a child who inherits an IRA but is still working and in a high tax bracket may choose to defer taking withdrawals. Assuming she plans to retire in five years, she may decide to take withdrawals of approximately 20% per year over the final five years of the 10-year period. Conversely, an already retired child who inherits an IRA at age 67, is in a relatively low tax bracket, and has his own sizeable IRA may consider the opposite approach. He may be better off accelerating distributions and taking approximately 20% per year over the first five years so that his inherited IRA distributions are not lumped on top of his own IRA RMD's that must begin at his age 72.

Like beneficiaries who inherit retirement accounts, IRA owners should also consider different planning strategies under the new SECURE Act rules. Older IRA owners who are not relying on their retirement accounts to meet living expenses beyond their RMD's and who plan to leave IRA's to their children may see long-term value from Roth Conversions. Those with children in higher income-tax brackets may minimize the aggregate "family" tax impact by doing a series of annual Roth Conversions during their lifetimes. By paying the taxes now at potentially lower rates, the family may increase the after-tax value of lifetime withdrawals. Knowing that their high tax beneficiaries will be forced to fully draw down their IRA after 10 years presumably makes a coordinated owner/beneficiary plan even more prudent under the new rules.

For those married couples with adequate resources outside of their IRA and who want to pass assets to their children, they may consider changing the primary beneficiaries from their spouse to their children for all or a portion of the value. For example, an IRA owner may choose to name his spouse and 60-year-old child as equal primary beneficiaries. If the IRA owner dies in 2020, the child can spread out taxable withdrawals on this 50% share through the end of 2030. If the mother does not pass away until 2030, her remaining balance would go to the son and then a new 10-year "clock" would start for that inherited IRA balance. In this hypothetical scenario, the family has been able to spread IRA withdrawals over 20 years and across two different taxpayers. Unlike the previous Roth Conversion strategy, this approach may be more advantageous if the child is in a lower tax bracket than the parents.

Consult Your Trust & Estate Attorney and Tax Accountant

Those IRA owners whose beneficiaries include trusts should consult their trust and estate attorneys to review their plans post SECURE Act. Depending on the circumstances, the new 10-year rule may require additional planning and adjustments to existing trust documents.

The new 10-year rule may also lead IRA owners who are charitably inclined to consider Charitable Remainder Trusts (CRT's) in their beneficiary plans. In lieu of regular inherited IRA withdrawals to beneficiaries, an income stream in the form of annuity payments may be made over the remaining life of the beneficiary with the account value remaining at death going to the charity. This approach is designed to simulate the previously popular "stretch" IRA in which distributions were allowed over one's lifetime.

New legislation from the SECURE Act has led to important changes in retirement planning. These include increasing the RMD beginning age from 70½ to 72, removing the age restriction for IRA contributions, and eliminating the "stretch" IRA and replacing it with a 10-year period for full withdrawal. IRA owners and their beneficiaries should become familiar with the new rules and consult with their tax advisors to consider strategies that maximize their after-tax value over the expected withdrawal period. There were many other important provisions contained in the SECURE Act that are not specifically related to IRA's. Some of the changes will impact qualified retirement accounts such as 401(k)'s and other employer sponsored plans.

Other Miscellaneous SECURE Act Provisions

- Expands the definition of qualified education expenses for 529 plans to include student loan payments (up to certain limits).
- Investment income that falls under the "kiddie tax" will no longer be subject to the trust income tax schedule. Unearned income subject to the "kiddie tax" will revert back to being subject to the parents' marginal tax rates.
- The threshold rate for taxpayers to deduct qualified medical expenses will remain at 7.5% of adjusted gross income for 2020. Note this was not a permanent provision but rather only an extension through 2020.

This is intended to be for informational purposes only and should not be interpreted as tax advice. This information does not factor in all important rules, changes, and considerations under the new legislation. Please consult your tax professional for specific tax advice about your personal situation.

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2020 Important Financial Information

2020 Tax Rate Schedule	
Taxable Income	Marginal Rate
Single (Unmarried Individuals)	
$0 to $9,875	10%
$9,876 to $40,125	12%
$40,126 to $85,525	22%
$85,526 to $163,300	24%
$163,301 to $207,350	32%
$207,351 to $518,400	35%
$518,401 +	37%
Married Filing Jointly & Surviving Spouse	
$0 to $19,750	10%
$19,751 to $80,250	12%
$80,251 to $171,050	22%
$171,051 to $326,600	24%
$326,601 to $414,700	32%
$414,701 to $622,050	35%
$622,051 +	37%
Head of Household	
$0 to $14,100	10%
$14,101 to $53,700	12%
$53,701 to $85,500	22%
$85,501 to $163,300	24%
$163,301 to $207,350	32%
$207,351 + $518,400	35%
$518,401 +	37%
Married Filing Separately	
$0 to $9,875	10%
$9,876 to $40,125	12%
$40,126 to $85,525	22%
$85,526 to $163,300	24%
$163,301 to $207,350	32%
$207,351 to $311,025	35%
$311,026 +	37%
Estates and Trusts	
$0 to $2,600	10%
$2,601 to $9,450	24%
$9,451 to $12,950	35%
$12,951 +	37%

Capital Gains Tax Rates			
Short-Term Capital Gain Rates (held 1 year or less)			Same as ordinary income
Long-Term Capital Gains (held > 1 year) and Qualified Dividends			
Single	Married Filing Jointly	Head of Household	Rate
Up to $40,000	Up to $80,000	Up to $53,600	0%
$40,001 to $441,450	$80,001 to $496,600	$53,601 to $469,050	15%
$441,451 +	$496,601 +	$469,051 +	20%
Unrecaptured gains on Section 1250 property			25%
Collectibles			28%

Income Tax Deductions and Exemptions	
Standard Deduction	
Single	$12,400
Married filing jointly	$24,800
Head of household	$18,650
Over age 65 or blind additional standard deduction	
Married or surviving spouse	$1,300
Single or not a surviving spouse	$1,650
Personal exemption	None

Retirement Plan Contribution Limits	
401(k), 403(b), 457 plans elective deferrals	$19,500
Catch-up contributions for 50 and older	$6,500
Defined contribution plans	$57,000
Defined benefit plans	$230,000
SIMPLE plans elective deferrals	$13,500
Catch-up contributions for 50 and older	$3,000
Traditional and Roth IRA	$6,000
Catch-up contributions for 50 and older	$1,000
Traditional IRA deductibility for active participants	Phaseout Limits:
Single	$65,000 to $75,000
Joint	$104,000 to $124,000
Spousal IRA if one spouse is covered by a plan	$196,000 to $206,000
Married filing separately	$0 to $10,000
Roth IRA income phaseout	
Single and Head of Household	$124,000 to $139,000
Joint	$196,000 to $206,000
Married filing separately	$0 to $10,000

Estate and Gift Tax	
Annual gift tax exlusion	$15,000
Estate and gift tax exclusion	$11,580,000
Maximum estate tax rate	40%

Health Savings Account (HSA) Contribution Limits = $3,550 for Self Only, $7,100 for Family
Catch-up contributions of $1,000 for age 55 and older

Medicare Surtaxes
0.9% on wages that exceed $200,000 (Single) or $250,000 (Married FJ)
3.8% on net investment income that falls above MAGI of $200,000 (Single) or $250,000 (Married FJ)

Medicare	
Part A Hospitalization	
First 60 days inpatient deductible	$1,408 for each benefit period
Days 61 - 90	$352 per day, for each benefit period
Days 91 +	$704 per day, up to 60 days over lifetime, then full amount per day

Part B Premium: Those participants who enroll in Medicare Part B for the first time in 2020, whose MAGI from 2018 exceeded certain thresholds, or who don't get Social Security benefits may be subject to the premiums below.

MAGI Single (for *2018*)	MAGI Joint (for *2018*)	Part B Monthly Premium	Part D *Addition* to Plan Premium
$87,000 or less	$174,000 or less	$144.60	$0
$87,001 to $109,000	$174,001 to $218,000	$202.40	$12.20
$109,001 to $136,000	$218,001 to $272,000	$289.20	$31.50
$136,001 to $163,000	$272,001 to $326,000	$376.00	$50.70
$163,001 to $500,000	$326,001 to $750,000	$462.70	$70.00
$500,001 +	$750,001 +	$491.60	$76.40
Part B Deductible	$198		
Coinsurance	20% of Medicare-approved amount for most services		

Source: irs.gov, Rev. Proc. 2019-44, IR-2019-179, Notice 2019-59, Centers for Medicare & Medicaid Services.
The data contained on this sheet is for informational purposes only and should not be interpreted as tax or investment advice.
Consult your tax professional for specific advice about your personal situation.

Kanawha Capital Management, LLC manages investment portfolios for individuals, retirement plans and endowment funds.
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