Your *Trust* Matters

January 2023 Newsletter

MidWestOne™ TRUST SERVICES

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New Tax Laws via Secure Act 2.0

The Secure Act 2.0 was signed into law at the end of December with the goal of strengthening the overall retirement system and Americans' ability to save for retirement. Although the Act contained dozens of provisions, the following highlights a few of the most relevant changes:

Changes to Required Minimum Distributions (RMDs)

Under prior law, participants were generally required to begin taking distributions from their retirement plans at age 72. The new law increases the RMD age further to 73 starting on January 1, 2023 – and increases the age further to 75 starting on January 1, 2033.

The penalty for failure to take RMDs is reduced from 50 to 25 percent. Further, if a failure to take an RMD from an IRA is corrected in a timely manner, as defined under the Act, the excise tax on the failure is further reduced from 25 percent to 10 percent.

RMDs are not required to begin prior to the death of the owner of a Roth IRA. However, under prior law, pre-death distributions were required in the case of the owner of a Roth designated account in an employer retirement plan (e.g., 401(k) plan). The Act **eliminates** the pre-death distribution requirement for Roth accounts in employer plans, effective for taxable years beginning after December 31, 2023.

Increased Catch-Up Contributions

Workplace Retirement Plans: The catch-up amount for people age 50 and older in 2023 is currently \$7,500. Starting January 1, 2025, the Act increases this to the greater of \$10,000 or 50 percent more than the regular catch-up amount in 2025 for individuals who have attained ages **60, 61, 62 and 63.** The increased amounts are indexed for inflation after 2025. However, if you earn 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. Individuals earning \$145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

IRAs: Under prior law, the limit on IRA contributions was increased by \$1,000 (not indexed) for individuals who have attained age 50. The Act **indexes** such limit and is effective for taxable years beginning after December 31, 2023.

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Matching to Roth Accounts

Under prior law, plan sponsors were not permitted to provide employer matching contributions in their 401(k), 403(b), and governmental 457(b) plans to a Roth account—matching contributions were on a pre-tax basis only. The Act allows defined contribution plans to provide participants with the option of receiving matching contributions on a Roth basis, effective in 2023.

Qualified Charitable Distributons (QCDs)

The Act expands the IRA charitable distribution provision to allow for a one-time, $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. The Act also i**ndexes** for inflation the annual IRA charitable distribution limit of $100,000.

529 Plan-to-Roth IRA Rollovers

Beneficiaries of 529 college savings accounts are permitted to rollover up to $35,000 over the course of their lifetime from any 529 account in their name to their Roth IRA. These rollovers are also subject to Roth IRA annual contribution limits, and the 529 account must have been open for more than 15 years.

Student Loan Payments

Starting in 2024, the Act permits an employer to make matching contributions under a 401(k) plan, 403(b) plan, or SIMPLE IRA with respect to “qualified student loan payments.”

If you have any questions about how these changes may affect your personal situation, please contact one of your trusted MidWest*One* Bank advisors!