Secure Act 2.0

SUMMARY FOR INDIVIDUAL TAXPAYERS

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The Consolidated Appropriations Act of 2023, passed on December 29, 2022, is a major omnibus bill (over 4,000 pages) covering wide ranging topics. SECURE 2.0 was included in this act and made significant changes to laws relating to retirement plans and IRAs.

Below is a summary of the portions of this act that will affect individual taxpayers.

SUMMARY	
AUTOMATIC ENROLLMENT PROVISION	For employers of eleven or more employees, employees are automatically enrolled upon eligibility in the employer's 401(k) plan. The automatic deferral must be at least 3% and increase 1% each year until 10% is reached. Employees may opt out. Effective for plan years beginning after December 31, 2024.
SAVER'S MATCH	The Saver's Credit, a non-refundable tax credit for lower income taxpayers that contribute to a qualified retirement plan, is now replaced with the Saver's Match. This new credit will match of up to 50% of the taxpayer's retirement contribution up to $2,000 per year. The match will be deposited directly in the taxpayer's retirement plan. Income limits apply. Effective for tax years beginning after December 31, 2026.
INCREASED RMD AGE	The age at which Required Minimum Distributions must begin was increase to 72 by Secure Act 1.0. The new Act further increases the age to 73 for those born between 07/01/1949 and 12/31/1950, and age 75 for those born in 1960 and later. Effective immediately.
STUDENT LOAN PAYMENT PROVISION	Qualified student loan payments will be counted as employee deferrals thus allowing employers to make matching contributions based on those payments. Effective for plan years beginning after December 31, 2023.
INDEXING OF IRA & RETIREMENT PLAN CATCH-UP CONTRIBUTIONS	Qualified retirement plan catch-up contributions, currently $7,500 per year for those over age 50, will now be indexed for inflation. IRA catch-up contributions, currently $1,000, will also be indexed for inflation. Effective beginning in 2025 for qualified plans and 2024 for IRAs.

WITHDRAWALS FOR CERTAIN EMERGENCIES	Current law imposes strict limitations on taking emergency withdrawals from retirement plans. The new law allows penalty free withdrawals for, "Emergency expenses, which are unforeseeable or immediate financial needs relating to personal or family emergency expenses". Limited to one distribution of up to $1,000 per year. Effective for plan years beginning after December 31, 2023.
EMPLOYEE SELF-CERTIFICATION FOR HARDSHIP	Under current law, requests for a hardship withdrawal from a qualified retirement plan must be proven via documentation prior to approval. The new provision allows for the plan sponsor to rely on the employee to self-certify their hardship without documentation. Effective immediately.
ROLLOVER OF 529 EDUCATION SAVINGS ACCOUNT TO ROTH IRA	Beneficiaries of Section 529 Education Savings Accounts that have existed for at least 15 years can roll over up to $35,000 to their Roth IRA subject to Roth IRA annual contribution and earned income limits. Effective for distributions after December 31, 2023
RETIREMENT PLAN LINKED SAVINGS ACCOUNTS	Employers may offer a savings account linked to their employer sponsored retirement plan. Only available to non-highly compensated employees. Deferral limited to 3% of salary capped at $2,500 or lower, determined by employer. Effective for plan years beginning after December 31, 2023.
OPTION TO TREAT EMPLOYER CONTRIBUTIONS AS ROTH CONTRIBUTIONS	Under current law, employer contributions to a qualified retirement plan must be made on a pre-tax basis. The new provision permits a plan sponsor to give participants the option of receiving employer contributions as Roth contributions. If chosen, these employer Roth contributions will be counted as wages to the plan participant and tax-deductible as wages to the employer. Effective Immediately.
REDUCED PENALTY FOR MISSED RMDS	The 50% excise tax penalty for missed or deficient RMDs has been reduced to 25%. The penalty is further reduced to 10% if corrected in a timely manner. Effective immediately.

PENALTY FREE DISTRIBUTIONS FOR CERTAIN SPECIAL CIRCUMSTANCES	Penalty free distributions may be taken from qualified plans for certain special circumstances. Up to $2,500 annually to pay for long-term care insurance, up to $10,000 annually for domestic abuse survivors, and distributions in the event of terminal illness (no limit). Effective dates vary.
PENALTY FREE DISTRIBUTIONS FOR QUALIFIED DISASTERS	Makes permanent special rules governing plan distributions and loans in cases of qualified federally declared disasters. Up to $22,000 per participant per disaster. Income can be spread over 3 years for tax purposes. Expanded plan loans also available. Effective for disasters occurring on or after January 26, 2021.
QCD	Qualified Charitable Distribution limits (currently $100k) will now be indexed for inflation. Also, a one-time opportunity to contribute up to $50k to a “split interest entity” (certain remainder trusts such as CRUT or CRAT). Significant limitations apply. Effective immediately.
NEW OPTIONS FOR SURVIVING SPOUSE BENEFICIARIES	A surviving spouse can elect to be treated as the deceased spouse for RMD purposes (irrevocable). RMDs will be delayed until deceased spouse would have reached RMD age. May be beneficial option when the surviving spouse is older. Effective for calendar years beginning after December 31, 2023.
CATCH-UP CONTRIBUTIONS AS ROTH	For employees whose prior year wages exceed $145,000 (indexed), all age 50 catch-up contributions must be made on a Roth basis. Applies to Section 401(a) qualified plans, Section 403(b) plans, and governmental Section 457(b) plans. Does not apply to SIMPLE IRAs or SEP plans or any IRAs. Effective for taxable years beginning after December 31, 2023.