Tax Cuts and Jobs Act

Retirement and Other Savings Accounts

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The Tax Cuts and Jobs Act is the biggest federal tax law change in over 30 years. Below are significant changes affecting certain retirement and other savings accounts, such as ABLE and 529 accounts. ***Note:*** Except where noted, the changes are effective for tax years 2018 – 2025.

Individual Retirement Arrangement (IRA)

Prior Law. An IRA contribution (traditional or Roth) for a tax year can be recharacterized as the other type of IRA contribution (traditional or Roth) before the due date (including extensions) for filing the tax return for the year in which the original contribution was made. The taxpayer is then allowed to reconvert the recharacterized contribution back into the other type of IRA (traditional or Roth). Certain holding periods apply before the recharacterized contribution can be reconverted back to the original contribution.

New Law. Under the new law, the reconversion rules cannot be used to unwind a Roth conversion. For example, an individual may make a contribution to a Roth IRA and, before the due date of the tax return, recharacterize it as a contribution to a traditional IRA. Likewise, an individual may make a contribution to a traditional IRA and later convert it into a Roth IRA. However, if a traditional IRA contribution is recharacterized as a Roth IRA contribution, the Roth IRA cannot be reconverted back into a traditional IRA.

Rollover Period of Plan Loan Offsets

Prior Law. If an employee takes a loan from a qualified retirement plan and stops making payments on the loan before it is fully repaid, the balance is considered distributed to the employee. This deemed distribution is generally taxed as though an actual distribution occurred, including being subject to the 10% early distribution penalty, if applicable. A deemed distribution was not eligible for rollover.

A plan may also provide that, in certain circumstances (for example, if an employee terminates employment), an employee's obligation to repay a loan is accelerated and, if the loan is not repaid, the loan is cancelled and the amount in the employee's account balance is offset by the amount of the unpaid loan balance, referred to as a loan offset. A loan offset is treated as an actual distribution from the plan equal to the unpaid loan balance rather than a deemed distribution. Unlike a deemed distribution, the amount of the distribution is eligible for a tax-free rollover to another eligible retirement plan within 60 days

New Law. Under the new law, the period during which a qualified plan loan offset amount may be contributed to an eligible retirement plan as a rollover contribution is extended from 60 days after the date of the offset to the due date (including extensions) for filing the federal income tax return for the tax year in which the plan loan offset occurs.

Section 529 Qualified Tuition Plan (QTP)

Prior Law. A qualified tuition plan (529 plan) is a program established and maintained by a state, agency, or by one or more eligible educational institutions under which a person may purchase tuition credits or certificates on behalf of a designated beneficiary that entitle the beneficiary to the waiver or payment of qualified higher education expenses of the beneficiary (a prepaid tuition program). A qualified tuition program also includes a program under which a person may make

contributions to an account that is established for the purpose of satisfying the qualified higher education expenses of the designated beneficiary of the account (a savings account program). Under both types of qualified tuition programs, a contributor establishes an account for the benefit of a particular designated beneficiary to provide for that beneficiary's higher education expenses. In general, prepaid tuition contracts and tuition savings accounts involve prepayments or contributions made by one or more individuals for the benefit of a designated beneficiary.

In practice, qualified tuition accounts or contracts generally involve a contributor (such as a grandparent or parent), a designated beneficiary (the grandchild or child), an account owner (usually the parent), and an administrator of the account or contract. Contributions to a qualified tuition program are not deductible for federal tax purposes (some states allow a deduction), and there is no specific dollar limit on the amount of contributions, account balances, or prepaid tuition benefits. Contributions are generally treated as completed gifts eligible for the gift tax annual exclusion. Amounts in the account accumulate on a tax-free basis. Amounts withdrawn from the account are not taxable to the extent they are used to pay for qualified higher education expenses. Qualified higher education expenses means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible education institution. Qualified expenses also include room and board for a student who is enrolled at least half-time.

New Law. Under the new law, distributions up to $10,000 are allowed from 529 plans for tuition expenses incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private or religious elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. Therefore, although an individual may be the designated beneficiary of multiple accounts, that individual may receive a maximum of $10,000 in distributions free of tax, regardless of whether the funds are distributed from multiple accounts. Any excess distributions received by the individual would be treated as a distribution subject to tax.

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Achieving a Better Life Experience (ABLE) Account

Prior Law. An ABLE account is a tax-favored savings program that provides benefits for individuals who are blind or disabled. Similar to a 529 plan, an ABLE account allows earnings on nondeductible contributions into the account to grow tax deferred. Distributions from the account are tax-free to the extent used to pay qualified disability expenses of the designated beneficiary. Contributions to an ABLE account are limited to the annual gift tax exclusion amount for the year ($15,000 for 2018).

New Law. Funds in a qualified tuition program (529 plan) can be rolled over tax-free into an ABLE account provided the designated beneficiary of the ABLE account is the same as the 529 plan, or a member of the designated beneficiary's family. The designated beneficiary can also contribute additional amounts to his or her own ABLE account in excess of the annual gift tax exclusion amount and claim the Saver's Credit (nonrefundable credit for contributions to qualified retirement savings plans) for the contribution, if he or she meets certain requirements.

To qualify for the Saver's Credit, AGI must be less than:

MFJ	$63,000
HOH	$47,250
Single, MFS, QW	$31,500

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.