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SECURE 2.0 Provides New Retirement Savings Options in 2024

The SECURE 2.0 Act, passed in December 2022, made wide-ranging changes to U.S. tax laws related to retirement savings. While some provisions were effective in 2023, others did not take effect until 2024. Here is an overview of some important changes for this year.

Matching student loan payments

Employees who make student loan repayments may receive matching employer contributions to a workplace retirement plan as if the repayments were employee contributions to the plan. This applies to 401(k), 403(b), and government 457(b) plans and SIMPLE IRAs. Employers are not required to make matching contributions in any situation, but this provision allows them to offer student loan repayment matching as an additional benefit to help address the fact that people paying off student loans may struggle to save for retirement. *This is an optional provision. Further guidance is expected.*

New early withdrawal exceptions

Withdrawals before age 59½ from tax-deferred accounts, such as IRAs and 401(k) plans, may be subject to a 10% early distribution penalty on top of ordinary income tax. There is a long list of exceptions to this penalty, including two new ones for 2024.

Emergency expenses — one penalty-free distribution of up to $1,000 is allowed in a calendar year for personal or family emergency expenses; no further emergency distributions are allowed during a three-year period unless funds are repaid or new contributions are made that are at least equal to the withdrawal. *This is an optional provision. Further guidance is expected.*

Domestic abuse — a penalty-free withdrawal equal to the lesser of $10,000 (indexed for inflation) or 50% of the account value is allowed for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period. *This is an optional provision. Further guidance is expected.*

Emergency savings accounts

Employers can create an emergency savings account linked to a workplace retirement plan for non-highly compensated employees. Employee contributions are after-tax and can be no more than 3% of salary, up to an account cap of $2,500 (or lower as set by the employer). Employers can match contributions up to the cap, but any matching funds go into the employee's workplace retirement account. *This is an optional provision. Further guidance is expected.*

Clarification for RMD ages

SECURE 2.0 raised the initial age for required minimum distributions (RMDs) from traditional IRAs and most workplace plans from 72 to 73 beginning in 2023 and 75 beginning in 2033. However, the language of the law was confusing. Congress has clarified that age 73 initial RMDs apply to those born from 1951 to 1959, and age 75 applies to those born in 1960 or later. This clarification will be made official in a law correcting a number of technical errors, expected to be passed in early 2024.

Transfers from a 529 college savings account to a Roth IRA

Beneficiaries of 529 college savings accounts are sometimes "stuck" with excess funds that they did not use for qualified education expenses. Beginning in 2024, a beneficiary can execute a direct trustee-to-trustee transfer from any 529 account in the beneficiary's name to a Roth IRA, up to a lifetime limit of $35,000. The 529 account must have been open for more than 15 years. These transfers are subject to Roth IRA annual contribution limits, so it would require multiple transfers to use the $35,000 limit.

Increased limits for SIMPLE plans

Employers with SIMPLE IRA or SIMPLE 401(k) plans can now make additional nonelective contributions up to the lesser of $5,000 or 10% of an employee's compensation, provided the contributions are made to each eligible employee in a uniform manner. The limits for elective deferrals and catch-up contributions, which are $16,000 and $3,500 respectively in 2024, may be increased an additional 10% for a plan offered by an employer with no more than 25 employees. An employer with 26 to 100 employees may allow higher limits as long as it provides either a 4% match or a 3% nonelective contribution.

Inflation indexing for QCDs

Qualified charitable distributions (QCDs) allow a taxpayer who is age 70½ or older to distribute up to $100,000 annually from a traditional IRA to a qualified public charity. Such a distribution is not taxable and can be used in lieu of all or part of an RMD. Beginning in 2024, the QCD amount is indexed for inflation, and the 2024 limit is $105,000.

SECURE 2.0 created an opportunity (effective 2023) to use up to $50,000 of one year's QCD (i.e., one time only) to fund a charitable gift annuity or charitable remainder trust. This amount is also indexed to inflation beginning in 2024, and the limit is $53,000.

Catch-up contributions: indexing, delay, and correction

Beginning in 2024, the limit for catch-up contributions to an IRA for people ages 50 and older will be indexed to inflation, which could provide additional saving opportunities in future years. However, the limit did not change for 2024 and remains $1,000. (The catch-up contribution limit for 401(k)s and similar employer plans was already indexed and is $7,500 in 2024.)

The SECURE 2.0 Act includes a provision — originally effective in 2024 — requiring that catch-up contributions to workplace plans for employees earning more than $145,000 annually must be made on a Roth basis. In August 2023, the IRS announced a two-year "administrative transition period" that effectively delays this provision until 2026. In the same announcement, the IRS affirmed that catch-up contributions in general will be allowed in 2024, despite a change related to this provision that could be interpreted to disallow such contributions. The error will be corrected in the 2024 technical legislation.

No more RMDs from Roth workplace accounts

Under previous law, RMDs did not apply to original owners of Roth IRAs, but they were required from designated Roth accounts in workplace retirement plans. This requirement is eliminated beginning in 2024.

Education Tax Credits

It's tax time, and your kitchen table is littered with papers and forms. As if this isn't bad enough, you recently paid your child's college semester bill, and you don't know where you'll find the money to pay the taxes that you expect to owe. Well, you might finally catch a break. Now that your child is in college, you might qualify for one of two education tax credits — the American Opportunity credit and the Lifetime Learning credit. And because a tax credit is a dollar-for-dollar reduction against taxes owed, it's more favorable than a tax deduction, which simply reduces the total income on which your tax is based.

American Opportunity credit

The American Opportunity credit is a tax credit that covers the first four years of your, your spouse's or your child's undergraduate education. Graduate and professional courses aren't eligible. The credit is worth a maximum of $2,500. It's calculated as 100% of the first $2,000 of tuition and related expenses that you've paid for the year, plus 25% of the next $2,000 of such expenses.

To take the credit, both you and your child must clear some hurdles:

- To qualify for the maximum American Opportunity credit in 2024, your MAGI must be below $80,000 if you're a single filer and $160,000 if you're a joint filer. A partial credit is available for single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000. (The same income limits applied in 2023.)
- Your child must attend an eligible educational institution as defined by the IRS (generally, any post-secondary school that offers a degree program and is eligible to participate in federal aid programs qualifies).
- Your child must attend college on at least a half-time basis.
- Your child can't have a felony conviction.
- You must claim your child as a dependent on your tax return. If your child has paid the tuition expenses, you can still take the credit as long as you claim your child as a dependent on your return. But if your child has paid the tuition expenses and isn't claimed as a dependent on your return, your child can take the credit on his or her own return.

The American Opportunity credit can be taken for more than one student in the same year, provided each student qualifies independently. So, if you have twins who are in their freshman year of college (and you otherwise meet the requirements), your credit would be worth $5,000.

However, there are other restrictions. You can't take both the American Opportunity credit and the Lifetime Learning credit in the same year for the same student. And whatever education expenses you cover with a tax-free distribution from your 529 plan or Coverdell education savings account can't be the same expenses you use to qualify for the American Opportunity credit.

Lifetime Learning credit

The Lifetime Learning credit is a tax credit for the qualified education expenses that you, your spouse, or your child incur for courses taken to improve or acquire job skills (even courses related to sports, games, or hobbies qualify if they meet this requirement!). The Lifetime Learning credit is less restrictive than the American Opportunity credit. In addition to college expenses, the Lifetime Learning credit covers the tuition expenses of graduate students and students enrolled less than half-time.

The Lifetime Learning credit is generally worth a maximum of $2,000. It's calculated as 20% of the first $10,000 of tuition and related expenses that you've paid for the year.

One major difference between the American Opportunity credit and the Lifetime Learning credit is that the Lifetime Learning credit is generally limited to a total of $2,000 per tax return, regardless of the number of students in a family who may qualify in a given year. So if you have twins who are in their senior year of college, your Lifetime Learning credit would be worth $2,000, not $4,000.

The income limits to qualify for the Lifetime Learning credit are the same as the American Opportunity credit. In 2024, to qualify for the maximum Lifetime Learning credit, your MAGI must be below $80,000 if you're a single filer and $160,000 if you're a joint filer. A partial credit is available for single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000. (The same income limits applied in 2023.)

As with the American Opportunity credit, if you withdraw money from your 529 plan or Coverdell ESA in the same year that you claim the Lifetime Learning credit, your withdrawal cannot cover the same expenses that you use to qualify for the Lifetime Learning credit.

How do I know which credit to take?

The American Opportunity credit and the Lifetime Learning credit cannot be claimed in the same year for the same student, so you'll need to pick one. Because the American Opportunity tax credit is available for all four years of undergraduate education and is worth more ($2,500 vs. $2,000), that credit will probably be your first choice. But if your child is attending school less than half-time, the Lifetime Learning credit will be your only option (assuming you meet the income limits).

How do I claim either credit on my tax return?

Every year that you pay college tuition you should receive Form 1098-T from the college, showing the tuition expenses you've paid for the year. Then, at tax time, you must file Form 8863 to take either credit. If you are married, you must file a joint return to take either credit. For more information, see IRS Publication 970 or consult a tax professional.

Gift and Estate Taxes

If you give away money or property during your life, those transfers may be subject to federal gift and estate tax and perhaps state gift tax. The money and property you own when you die (i.e., your estate) may also be subject to federal gift and estate tax and some form of state death tax. These property transfers may also be subject to generation-skipping transfer taxes. You should understand all of these taxes, especially since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (the2001 Tax Act), the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Act), the American Taxpayer Relief Act of 2012 (the 2012 Tax Act), and the Tax Cuts and Jobs Act. The recent Tax Acts contain several changes that make estate planning much easier.

Federal gift and estate tax — background

Under pre-2001 Tax Act law, no federal gift and estate tax was imposed on the first $675,000 of combined transfers (those made during life and those made at death). The tax rate tables were unified into one — that is, the same rates applied to gifts made and property owned by persons who died in 2001. Like income tax rates, gift and estate tax rates were graduated. Under this unified system, the recipient of a lifetime gift received a carryover basis in the property received, while the recipient of a bequest, or gift made at death, got a step-up in basis (usually fair market value on the date of death of the person who made the bequest or gift).

The 2001 Tax Act, the 2010 Tax Act, the 2012 Tax Act, and the Tax Cuts and Jobs Act substantially changed this tax regime.

Federal gift and estate tax — current

The 2001 Tax Act increased the applicable exclusion amount for gift tax purposes to $1 million through 2010. The applicable exclusion amount for estate tax purposes gradually increased over the years until it reached $3.5 million in 2009. The 2010 Tax Act repealed the estate tax for 2010 (and taxpayers received a carryover income tax basis in the property transferred at death), or taxpayers could elect to pay the estate tax (and get the step-up in basis). The 2010 Tax Act also re-unified the gift and estate tax and increased the applicable exclusion amount to $5,120,000 in 2012. The top gift and estate tax rate was 35 percent in 2012. The 2012 Tax Act increased the applicable exclusion amount to $5,490,000 (in 2017) and the top gift and estate tax rate to 40 percent (in 2013 and later years). The Tax Cuts and Jobs Act, signed into law in December 2017, doubled the gift and estate tax exclusion amount and the GST tax exemption (see below) to $11,180,000 in 2018. The amount is $13,610,000 in 2024 ($12,920,000 in 2023). After 2025, they are scheduled to revert to their pre-2018 levels and cut by about one-half.

However, many transfers can still be made tax free, including:

- Gifts to your U.S. citizen spouse; you may give up to $185,000 in 2024 ($175,000 in 2023) tax free to your noncitizen spouse
- Gifts to qualified charities
- Gifts totaling up to $18,000 (in 2024, $17,000 in 2023) to any one person or entity during the tax year, or $36,000 (in 2024,$34,000 in 2023) if the gift is made by both you and your spouse (and you are both U.S. citizens)
- Amounts paid on behalf of any individual as tuition to an educational organization or to any person who provides medical care for an individual

Federal generation-skipping transfer tax

The federal generation-skipping transfer (GST) tax imposes tax on transfers of property you make, either during life or at death, to someone who is two or more generations below you, such as a grandchild. The GST tax is imposed in addition to, not instead of, federal gift and estate tax. You need to be aware of the GST tax if you make cumulative generation-skipping transfers in excess of the GST tax exemption ($13,610,000 in 2024, $12,920,000 in 2023). A flat tax equal to the highest estate tax bracket in effect in the year you make the transfer (40 percent in 2023 and 2024) is imposed on every transfer you make after your exemption has been exhausted.

State transfer taxes

Currently, a few states impose a gift tax, and a few states impose a generation-skipping transfer tax. Some states also impose a death tax, which could be in the form of estate tax, inheritance tax, or credit estate tax (also known as a sponge or pickup tax). Contact an attorney or your state's department of revenue or taxation to find out more information.

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