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WEALTH MANAGEMENT

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SPECIAL TAX EDITION NEWSLETTER

FEBRUARY 2023

The SECURE Act 2.0

By Amy Mitchell, CFA, CFP®

There has been much ado about the SECURE Act 2.0. Passed into law as part of the year-end omnibus bill, this new retirement law has been received with both anticipation and trepidation. The original Setting Every Community Up for Retirement Act (SECURE Act) became effective on January 1, 2020, and with about a dozen provisions, it was small but mighty. Notably, the SECURE Act changed the landscape of retirement planning around inherited individual retirement accounts (IRAs) by eliminating the "stretch IRA" for most non-spouse beneficiaries and requiring full withdrawal within 10 years.

The SECURE Act 2.0 builds on the SECURE Act and is much longer with over 90 provisions. Although none of its provisions are (arguably) as impactful as the elimination of the stretch IRA, the sheer volume of provisions means that the law may impact more people. Below is a summary of key provisions; many become effective in 2023, and others will be phased in over the coming years.

EFFECTIVE IN 2023

- **Age for required minimum distributions (RMDs) increases to 73.** If you turned 72 in 2022, then you fall under the old rules and must take your 2022 RMD by April 1, 2023. However, if you turn 72 in 2023, then you do not have an RMD this year. For individuals born between 1951 and 1959, RMDs will start at age 73. Looking ahead, in 2033 the RMD age will increase again to age 75 and will impact those born in 1960 or later.
- **RMD excise tax is reduced to 25% from 50%.** If you fail to take your RMD, the penalty is now 25% of the amount that you should have distributed from your retirement account but did not.
- **Roth allowed for SIMPLE and SEP IRAs.** Both employee and employer contributions may be designated as Roth contributions, if allowed by the plan.
- **Retirement Savings Lost and Found Database.** The Department of Labor will create a national online database to assist employees with finding a prior pension and/or retirement savings account(s).
- **Roth election allowed for employer contributions.** Prior to this year, employer contributions to a 401(k) or similar plan had to be pre-tax (traditional). Employers now have the option of offering an after-tax Roth election for employer matching and nonelective contributions. If the employee makes this election, then the employee would report the Roth contribution as income. Note that the law allows but does not require an employer to provide this Roth election.

The additional time before RMDs allow investments to continue tax-deferred growth. But just because you *can* delay withdrawals from your traditional retirement accounts does not mean that you *should*. If you avoid all withdrawals from traditional retirement accounts and then take RMDs over a shorter time horizon, your annual RMDs may be higher which could push you into a higher marginal income tax bracket. The good news is that the longer timeframe until required withdrawals creates flexibility which in turn creates planning opportunities – while you may not need withdrawals for current expenses, considering partial Roth conversions or other strategies in the years prior to RMDs begin may help to minimize your tax liability over your lifetime.

CONTINUED ON NEXT PAGE ▶

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WHAT'S AHEAD

- **Mandatory Roth catch-up contributions** (beginning after 2023). If your wages exceed $145,000, then catch-up contributions must be designated as Roth contributions.
- **529 plan rollovers to Roth IRA** (beginning after 2023). With certain limitations, a beneficiary of a 529 plan may roll over up to $35,000 during his lifetime to a Roth IRA. To be eligible, a 529 plan must be open for at least 15 years. A rollover would be subject to the current annual IRA contribution limits, including other Roth IRA contributions made by the beneficiary. Also, 529 contributions made within the past five years are ineligible to be rolled over.
- **Eliminate RMDs for Roth 401(k) accounts** (beginning after 2023). There will no longer be required distributions from Roth 401(k) accounts.
- **Expanded Qualified Charitable Distributions** (beginning after 2023). The $100,000 annual limit for QCDs will be indexed for inflation.
- **Increased catch-up contributions.** Beginning after 2023, IRA catch-up contributions will be indexed for inflation. Beginning after 2024, retirement plan catch-up contributions will be indexed for inflation. For these plans, there also will be a special contribution allowed for employees who are age 60 to 63.

WHAT'S NOT INCLUDED

Although the list of provisions is long, some items did not make it into the final law.

- **No changes to inherited IRAs.** The rules on the amount and timing of RMDs for inherited IRAs remain the same.
- **No impact on backdoor Roth conversions.** Backdoor Roth conversions and mega-backdoor Roth contributions do not have new limitations.
- **No creation of RMDs based on account balances.** This was discussed in relation to the outsized balances in some Roth IRAs (Peter Thiel's $5 billion Roth IRA created from a very early investment in PayPal was an oft-reported example).

As with any law, and especially longer ones, technical corrections and interpretations are expected, and the Hemington team will continue to monitor and analyze the provisions of the SECURE Act 2.0 for planning opportunities. Please reach out to your wealth advisor if you have any questions or need any clarification.

INFLATION'S IMPACT ON TAX PROVISIONS

Each year the IRS imposes an annual inflation adjustment on certain tax provisions. While most people are aware that retirement contribution limits may change each year, below are highlights of other inflation adjustments for 2023.

On the positive side…

- **Annual exclusion for gifts** increases to $17,000, up from $16,000 in 2022.
- **Lifetime gift and estate tax exemption** increases to $12.92 million, up from $12.06 million in 2022.
- **Social Security benefits** reflect an increase of 8.7% for 2023. This is the largest cost of living adjustment since 1981, when benefits increased over 11%.
- **For 2023 income tax filings,** marginal income tax brackets and the standard deduction increase for 2023.
- **Flexible spending account (FSA) contribution limit** increases to $3,050, up from $2,850 in 2022. Employers are not required to allow you to carry over a balance, so make sure you use the funds on qualified expenses within the allotted time.

On the other hand…

- **Maximum earnings subject to the Social Security payroll tax** increase to $160,200, up from $147,000. Over the past five years, the Social Security wage cap has increased by almost 25%.

TAX CORNER

Maximum Contribution Limits: Annually the IRS adjusts the maximum amount that may be contributed to retirement accounts.

	2022	50+ Catch-up	2023	50+ Catch-up
IRA/Roth IRA	$6,000	$1,000	$6,500	$1,000
SEP IRA	$61,000	Not Permitted	$66,000	Not Permitted
401(k) / 403(b) / 457(b) / TSP	$20,500	$6,500	$22,500	$7,500
Solo 401(k)	$61,000	$6,500	$66,000	$7,500

** Contribution limits may be lower, depending on your circumstances.*

Catch-up Contributions: You become eligible for catch-up contributions in the year you turn 50.

Deadline for 2022 IRA Contributions: You may make contributions for your traditional IRA or Roth IRA up to the April 17, 2023, tax filing deadline. For SEP IRAs, the deadline for establishing and contributing to a SEP IRA is the business's tax filing deadline, including extensions.

Spousal IRA: For married couples filing a joint tax return, each spouse may contribute to an IRA based on the earnings of one spouse. This allows the "nonworking" spouse to contribute to his or her own IRA, even with no or low earned income.

Roth IRAs: Eligibility to directly contribute to a Roth IRA is affected by the amount of your modified AGI. For 2022, the income phase-out range is $129,000 to $144,000 for singles and $204,000 to $214,000 for a married couple filing jointly. For 2023, the phase-out range increases to $138,000 to $153,000 for singles and $218,000 to $228,000 for married filing jointly. For a married couple filing separately, the phase-out range remains unchanged at $0 to $10,000.

Roth IRAs for Children: For children with earned income, you may establish and fund a Roth IRA for them by April 17, 2023.

For workplace retirement accounts, check with your HR department and increase your periodic contributions, if possible. If you are 50 or older, you may contribute up to $30,000 to your 401(k) in 2023.

Hemington Has a New COO

The Hemington team is thrilled to welcome **Bret Caling** as our new Chief Operating Officer. With over a decade of experience in the financial services industry, Bret brings a wealth of knowledge in investment management, portfolio accounting, risk analysis, process improvement, and technology best practices for registered investment advisory firms (RIAs).

Prior to joining Hemington, Bret was a Vice President at a nationally known RIA with over $4 billion in assets under management, where he oversaw technology initiatives. He helped to create and document advisor onboarding policies and procedures, and led the onboarding of 11 new advisor teams totaling over $3 billion in assets. Bret also worked as a trade and business consultant for a firm that provides portfolio management and client portal solutions for RIAs. Earlier in his career, Bret was a financial professional with The Bank of Charles Town in West Virginia.

Bret earned a BS in Business Administration from Shepherd University. He and his wife Amber live in Raleigh, NC, with their two daughters. Bret enjoys spending time with his family, being outdoors, playing and coaching sports, and enjoying the culinary offerings of living in the South.

Need to Find Your 1099s?

TD Ameritrade or Charles Schwab should have mailed Forms 1099 to your address of record. The 1099s are also available on the custodian's client portal at AdvisorClient.com (for TDA) or SchwabAlliance.com (for Schwab). Please reach out to your Hemington team if you need help to reset your login credentials or to access your documents.

WHAT'S NEW AT HEMINGTON?

Travis Johnson and her team at **October Saves** had another amazing year, raising over $615,000 in 2022. October Saves is an all-volunteer charitable organization that Travis and a friend began in 2014 for the purpose of raising money to support breast and pediatric cancer research. The October Saves Goalie Challenge is held during Breast Cancer Awareness month. Youth, college, and professional ice hockey goalies gather pledges, and each save that a goalie made in October earned money for the charity. Washington Capitals goalies Darcy Kuemper and Charlie Lindgren participated in the Challenge.

Last fall, **Ben Corson** and his longtime sweetheart Ali celebrated a lovely wedding at a vineyard in Charlottesville. Best wishes to the happy couple!

Two recent ***Yahoo Finance*** articles featured **Eileen O'Connor** sharing her thoughts on the SECURE Act 2.0 provisions, which discussed changes to the required minimum distribution age and the potential impact on retirees.

Hemington team members celebrating the holiday season together over dinner.

A Thanksgiving potluck at the Hemington office.

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

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