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LinkedIn® – Ryan Nietert
Facebook – OakCrest Capital, LLC
Twitter – @OakCrestCapital

www.oakcrestllc.com

17W220 22nd Street
Suite 300/Box 4
Oakbrook Terrace, IL 60181
312-525-8793
ryan.nietert@oakcrestllc.com

OakCrest CAPITAL, LLC

SECURE ACT 2.0: AN OVERVIEW

In the final days of 2022, Congress passed a new set of retirement rules designed to facilitate contribution to retirement plans and access to those funds earmarked for retirement.

The law is called SECURE 2.0, and it is a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in 2019.

The sweeping legislation has dozens of significant provisions; here are the major provisions of the new law.

New Distribution Rules

Required minimum distribution (RMD) age will rise to 73 years in 2023. By far, one of the most critical changes was increasing the age at which owners of retirement accounts must begin taking RMDs. Further, starting in 2033, RMDs may begin at age 75. If you have already turned 72, you must continue taking distributions. However, if you are turning 72 this year and have already scheduled your withdrawal, we may want to revisit your approach.[1]

Access to funds. Plan participants can use retirement funds in an emergency without penalty or fees. For example, 2024 onward, an employee can take up to $1,000 from a retirement account for personal or family emergencies. Other emergency provisions exist for terminal illnesses and survivors of domestic abuse.[2]

Reduced penalty. Starting in 2023, if you miss an RMD for some reason, the penalty tax drops to 25 percent from 50 percent. If you promptly fix the mistake, the penalty may drop to 10 percent.[3]

New Accumulation Rules

Catch-up contributions. From January 1, 2025, investors aged 60 through 63 years can make annual catch-up contributions of up to $10,000 to workplace retirement plans. The catch-up amount for people aged 50 and older in 2023 is

$7,500. However, the law applies certain stipulations to individuals with annual earnings more than $145,000.[4]

Automatic enrollment. In 2025, the Act requires employers to automatically enroll employees into workplace plans. However, employees can choose to opt-out.[5]

Student loan matching. In 2024, companies can match employee student loan payments with retirement contributions. The rule change offers workers an extra incentive to save for retirement while paying off student loans.[6]

Revised Roth Rules

529 to a Roth. Starting in 2024, pending certain conditions, individuals can roll a 529 education savings plan into a Roth individual retirement account (IRA). Therefore, if your child receives a scholarship, goes to a less expensive school, or does not go to school, the money can get repositioned into a retirement account. However, rollovers are subject to the annual Roth IRA contribution limit. Roth IRA distributions must meet a five-year holding requirement and occur after age 59½ to qualify for the tax-free and penalty-free withdrawal of earnings. Tax-free and penalty-free withdrawals are also allowed under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.[7]

SIMPLE and SEP. 2023 onward, employers can make Roth contributions to savings incentive match plans for employees (SIMPLE) or simplified employee pension (SEP).[8]

Roth 401(k)s and Roth 403(b)s. The new legislation aligns the rules for Roth 401(k)s and Roth 403(b)s with Roth IRA rules. From 2024, the legislation no longer requires minimum distributions from Roth accounts in employer retirement plans.[9]

More Highlights

Support for small businesses. In 2023, the new law will increase the credit to help with the administrative costs of setting up a retirement plan. The credit increases to 100 percent from 50 percent for businesses with less than 50 employees. By boosting the credit, lawmakers hope to remove one of the most significant barriers for small businesses offering a workplace plan.[10]

Qualified charitable donations (QCDs). 2023 onward, QCDs will adjust for inflation. The limit applies on an individual basis; therefore, for a married couple, each person who is 70½ years and older can make a QCD as long as it remains under the limit.[11]

The change in retirement rules does not mean adjusting your current strategy is appropriate. Each of your retirement assets plays a specific role in your overall financial strategy, so a change to one may require changes to another.

Moreover, retirement rules can change without notice, and there is no guarantee that the treatment of specific rules will remain the same. This article intends to give you a broad overview of SECURE 2.0. It is not intended as a substitute for real-life advice. If changes are appropriate, your trusted financial professional can outline an approach and work with your tax and legal professionals, if applicable.

Citations

1. Fidelity.com, December 23, 2022
2. CNBC.com, December 22, 2022
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4. Fidelity.com, December 22, 2022
5. Paychex.com, December 30, 2022
6. PlanSponsor.com, December 27, 2022

7. CNBC.com, December 23, 2022

8. Forbes.com, January 5, 2023

9. Forbes.com, January 5, 2023

10. Paychex.com, December 30, 2022

11. FidelityCharitable.org, December 29, 2022

RETURNS (AS OF 02/28/23)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	-2.61%	3.40%	-9.23%	10.35%
US Large Cap	Dow Jones TR	-4.19%	-1.48%	-3.65%	8.72%
US Small Cap	Russell 2000 TR	-1.81%	7.71%	-7.38%	8.71%
International	MSCI EAFE NR USD	-2.23%	5.65%	-5.76%	4.31%
Taxable Bonds	Barclays US Agg Bond TR	-2.67%	.57%	-9.71%	-3.77%

TIPS FOR INFLATION

In February 2018, Jerome Powell was appointed as Chair of the Board of Governors of the Federal Reserve System. He became the 16th chair to take over the helm of the world's most influential central bank. Among other duties, he and the Fed governors are tasked with adjusting short-term interest rates to help control inflation in an effort to promote overall economic growth.[1]

Until 2021, inflation had remained relatively low, which had allowed the Fed to maintain an accommodative monetary policy. More recently, the Fed has been increasing short-term interest rates to combat high levels of inflation.

A Few TIPS

Unlike conventional U.S. Treasury bonds, the principal amount of Treasury Inflation-Protected Securities, or "TIPS," is adjusted when there are changes in the Consumer Price Index (CPI), which measures changes in inflation. When the CPI increases, a TIPS's principal increases. If the CPI falls, the principal is reduced.

The relationship between TIPS and the CPI can affect the amount of interest you are paid every six months as well as the amount you are paid when your TIPS matures.[2]

Remember, TIPS pay a fixed rate of interest. Since the fixed rate is applied to the adjusted principal, interest payments can vary from one period to the next. TIPS help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index— while providing a real rate of return guaranteed by the U.S. Government.

When TIPS mature, the bondholder will receive either the adjusted principal or the original principal, whichever is greater.[2,3]

If you are concerned about inflation – and expect short-term interest rates may increase – TIPS are an investment that may be worth considering. A close review of your overall strategy might also reveal other investment choices that may be appropriate in an environment of changing interest rates.

Inflation in Perspective

For the 20-year period ended 2021, the Consumer Price Index averaged a 2.[15]% inflation rate per year. In 2022, however, inflation was well above its long-term average.

Source: USInflationCalculator.com, 2022

Citations

1. TheBalance.com, August 30, 2022
2. The interest income from a Treasury Inflation-Protected Security (TIPS) is exempt from state and local taxes. However, according to current tax law, it is subjected to federal income tax. Adjustments in principal are taxed as interest in the year the adjustment occurs even though the principal adjustment is not received by the bondholder until maturity. Individuals should consider their ability to pay the current taxes before investing.
3. Investopedia.com, February 17, 2022

A BRIEF HISTORY OF ESTATE TAXES

Federal estate taxes have been a source of funding for the federal government almost since the U.S. was founded.

In 1797, Congress instituted a system of federal stamps that were required on all wills offered for probate when property (land, homes) was transferred from one generation to the next. The revenue from these stamps was used to build the Navy for an undeclared war with France, which had begun in 1794. When the crisis ended in 1802, the tax was repealed.[1]

Estate taxes returned during the build-up to the Civil War. The Revenue Act of 1862 included an inheritance tax, which applied to transfers of personal assets. In 1864, Congress amended the Revenue Act, added a tax on transfers of real estate, and increased the rates for inheritance taxes. As before, once the war ended, the Act was repealed.[1]

In 1898, a federal legacy tax was proposed to raise revenue for the Spanish-American War. This served as a precursor to modern estate taxes. It instituted tax rates that were graduated by the size of the estate. The end of the war came in 1902, and the legacy tax was repealed later that same year.[1]

In 1913, however, the 16th Amendment to the Constitution was ratified – the one that gives Congress the right to "lay and collect taxes on incomes, from whatever source derived." This amendment paved the way for the Revenue Act of 1916, which established an estate tax that in one way or another, has been part of U.S. history since then.[1]

In 2010, the estate tax expired – briefly. But in December 2010, Congress passed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The new law retroactively imposed tax legislation on all estates settled in 2010.[2]

In 2012, the American Tax Relief Act made the estate tax a permanent part of the tax code.[3]

As part of the 2017 Tax Cuts and Jobs Act, estate tax rules were adjusted again. The estate tax exemption was raised to $11.2 million, a doubling of the $5.6 million that previously existed. Married couples were able to pass as much as $22.4 million to their heirs. As of 2022, that rate has risen to $12.06 million per individual (and $24.12 million for married couples). The Act is set to expire in 2025. If you're uncertain about your estate strategy, it may be a good time to review the approach you currently have in place.[4]

Estate Taxes and Overall Federal Revenues

Estate taxes typically account for about one percent of total federal revenue.[5]

Chart Source: USASpending.gov, 2022

Exemption through the Years

Federal estate taxes exempt a share of estates from federal estate taxes. For the 2022 tax year, if an estate is worth less than $12.06 million, no federal estate taxes may apply.[4]

YEAR	EXCLUSION AMOUNT	HIGHEST TAX RATE
2002	$1,000,000	50.0%
2003	$1,000,000	49.0%
2004	$1,500,000	48.0%
2005	$1,500,000	47.0%
2006	$2,000,000	46.0%
2007	$2,000,000	45.0%
2008	$2,000,000	45.0%
2009	$3,500,000	45.0%
2010	$0 OR $5,000,000	0% OR 35%
2011	$5,000,000	35.0%
2012	$5,120,000	35.0%
2013	$5,250,000	39.6%
2014	$5,340,000	39.6%
2015	$5,430,000	39.6%
2016	$5,450,000	39.6%
2017	$5,490,000	39.6%
2018	$11,180,000	37%
2019	$11,400,000	37%
2020	$11,580,000	40%
2021	$11,700,000	40%
2022	$12,060,000	40%

Chart Source: TheBalance, May 23, 2022

Citations

1. National Taxpayer's Union, 2020

2. IRS.gov, 2020

3. The tax code allows an individual to gift up to $15,000 per person in 2021 without triggering any gift or estate taxes. An individual can give away up to $11,700,000 without owing any federal tax. Couples can leave up to $23,400,000 without owing any federal tax. Also, keep in mind that some states may have their own estate tax regulations. This material is not intended as tax or legal advice. Please consult a professional with tax or legal experience for specific information regarding your individual situation.

4. The Tax Cuts and Jobs Act of 2017 limits mortgage interest deduction to the first $750,000 of the loan for a home. The 2017 tax law change also limited to $10,000 the amount taxpayers may deduct in state and local income taxes.

OakCrest Capital, LLC | 17W220 22nd St. | Suite 300/Box 4 | Oakbrook Terrace, IL 60181 | 312-525-8793