



Current Federal Tax Developments

July 22, 2024

Kaplan Financial Education



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This Week We Look At:

Taxpayer can't simply rely on tax software when preparing their return, even if they aren't being nominated for Secretary of Treasury

IRS finalizes SECURE Act/SECURE 2.0 Act required minimum distributions regulations

IRS proposed regulations address the problem of determining the applicable age for those born in 1959

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<https://www.currentfederaltaxdevelopments.com>





Taxpayer Not Excused from Errors Using Tax Software - Has a Responsibility to Read the Form 1040 Instructions



Photo by [Jon Tyson](#) on [Unsplash](#)

- *Pope v. Commissioner*, TC Summary Op. 2024-15, July 17, 2024
 - Taxpayer contributed \$4,911.72 to a §401(k) plan and had other amounts deferred by his employer
 - Taxpayer claimed an IRA deduction in her tax software by adding the W-2 amount to her estimate of the other deferrals her husband had, arriving at a deduction of \$14,000 for his "IRA"
 - In reality there were no contributions made to any IRA account
 - She assumed the software would have alerted her if this was in error

<https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/read-instructions-when-self-preparing-return-tax-court-advises/7kh7j>



Taxpayer Not Excused from Errors Using Tax Software - Has a Responsibility to Read the Form 1040 Instructions



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- *Pope v. Commissioner*, TC Summary Op. 2024-15, July 17, 2024
 - Unfortunately, the taxpayers are not entitled to an IRA deduction under IRC §219
 - No IRA was ever funded
 - Taxpayer failed to read the instructions.
 - Must consult and follow the instructions even if tax software is used
 - Also the court cannot grant relief from the interest being charged on the tax due

<https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/read-instructions-when-self-preparing-return-tax-court-advises/7kh7j>

IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - Proposed regulations were released in 2022 providing guidance for changes to required minimum distribution rules found in 2019's SECURE Act
 - Before the regulations could be finalized, Congress passed the SECURE 2.0 Act in 2022 which made additional changes to some of these provisions
 - One of the major provisions of the Act was the elimination of most "stretch IRA" programs, requiring all funds be out of defined contribution programs by 10 years after the year of death

<https://public-inspection.federalregister.gov/2024-14542.pdf>



IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - General rule - so long as there is *designated beneficiary* the entire balance must be distributed out of the plan by the end of the 10th year following the year of death
 - The 10 year rule applies regardless of whether or not the decedent had lived beyond his/her *required beginning date* and thus had been receiving *required minimum distributions*
 - But the IRS noted that IRC §401(a)(9)(A)(ii) was not repealed or overridden by either Act.

<https://public-inspection.federalregister.gov/2024-14542.pdf>



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(B) Required distribution where employee dies before entire interest is distributed.

(i) Where distributions have begun under subparagraph (A)(ii). A trust shall not constitute a qualified trust under this section unless the plan provides that if--

(I) the distribution of the employee's interest has begun in accordance with subparagraph (A)(ii), and

(II) the employee dies before his entire interest has been distributed to him,

the remaining portion of such interest *will be distributed at least as rapidly as under the method of distributions being used under subparagraph (A)(ii) as of the date of his death.*

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- TD 10001, July 19, 2024
 - Under the prior law, the IRS had concluded that “at as rapidly” meant over the life expectancy of the *designated beneficiary* with the shortest life expectancy if all beneficiaries were *designated beneficiaries*.
 - Entities (estates, charities, etc.) have a life expectancy of 0 years (not an *eligible beneficiary*)
 - Eligible beneficiaries determined as of September 30 of the year following the year of death

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IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



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- TD 10001, July 19, 2024
 - Many commentators had read the SECURE Act provision to eliminate those annual distributions for accounts in pay status at the date of death and only have the 10 year rule apply
 - That meant no distributions would be due in the first 9 years (although distributions could be taken)
 - Any remaining balance would come out in year 10
 - That position was used by many taxpayers for 2021 RMDs for decedents that died in 2020

<https://public-inspection.federalregister.gov/2024-14542.pdf>



IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - The proposed regulations held that position was in error
 - Rather distributions had to satisfy *both*
 - The annual distribution rule based on the shortest life expectancy of the *designated beneficiaries* (assuming all beneficiaries were designated beneficiaries) in years 1-9 and
 - Any remaining balance had to be distributed in year 10
 - Same rules applied to minor children of the deceased when they reached age of majority

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IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - The law allowed stretch IRAs only for
 - Benefits inherited from a decedent who died prior to 2020 and
 - For certain *eligible designated beneficiaries*
 - In those cases, life expectancy payouts could continue
 - However if the beneficiary that inherited the account died, the next level beneficiaries would come under the 10 year rule

<https://public-inspection.federalregister.gov/2024-14542.pdf>



IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



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- TD 10001, July 19, 2024
 - Due to many comments received by the IRS and the fact that many individuals inheriting impacted IRAs and defined contribution plan balances in pay status the IRS released a number of relief Revenue Notices that applied to distributions that would have due in years 1-9 from 2021-2024
 - Notices 2022-53, 2023-54 and 2024-35
 - Provided that no penalties would be imposed for failure to take the annual distributions
 - Also would be no sanctions on plans that failed to make such distributions

<https://public-inspection.federalregister.gov/2024-14542.pdf>



IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs

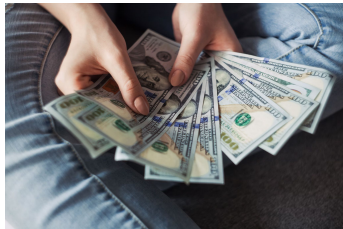


Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - Final regulations adopted the proposed regulations with only minor changes
 - Revised required beginning dates (eventually moving the RBD to age 75 for those born in or after 1960)
 - Most similar changes found in SECURE 2.0 Act
 - However decided some SECURE 2.0 issues impacting RMD needed to have proposed regulations issued

<https://public-inspection.federalregister.gov/2024-14542.pdf>



IRS Finalizes Regulations on SECURE Act and SECURE Act 2.0 RMDs



Photo by [Alexander Mills](#) on [Unsplash](#)

- TD 10001, July 19, 2024
 - The required distributions in years 1-9 were retained in the final regulations
 - No requirement was added in the regulations to “catch up” for any distributions skipped under the Notices in 2021-2024 (some had concerns about this)
 - Does mean those distributions will be required in 2025 and subject to penalties and plan sanctions if not made in that year or later years

<https://public-inspection.federalregister.gov/2024-14542.pdf>



Proposed Regulations Address the Problem of Those Born in 1959



Photo by [Maxim Simonov](#) on [Unsplash](#)

- REG-103529-23, July 19, 2024
 - Proposed regulations also issued to address items raised in the SECURE 2.0 Act that the IRS believes should be subject to comments
 - One of the key items is dealing with a drafting error in the Act that impacts only those born in 1959
 - The law provided for later required beginning date *applicable ages*. The age now is:
 - 73 for those who attain age 73 before 2033 and
 - 75 for those who attain age 74 after 2032

<https://public-inspection.federalregister.gov/2024-14543.pdf>



Proposed Regulations Address the Problem of Those Born in 1959



Photo by [Maxim Simonov](#) on [Unsplash](#)

- REG-103529-23, July 12, 2024
 - The problem is that those born in 1959 attain
 - Age 73 in 2032 and (*applicable age 73*)
 - Age 74 in 2024 (*applicable age 75*)
 - IRS resolves this issue by using the lower age
 - Note that this should be addressed by Congress in a technical corrections bill, assuming one gets passed before 2032
 - The regulations may serve to force Congress to act

<https://public-inspection.federalregister.gov/2024-14543.pdf>

Proposed Regulations Address the Problem of Those Born in 1959



Photo by [Maxim Simonov](#) on [Unsplash](#)

- REG-103529-23, July 12, 2024
 - Does *Loper Bright Enterprises* impact this?
 - Will have to see how the courts interpret this
 - However seems unlikely a court would disturb this as there is no real evidence what Congress thought, but seems most likely they were just getting rid of the age 74 *applicable age* that was initially found in SECURE 2.0
 - Also, age 73 distributions literally satisfies both rules
 - Remember Congress has to fix statute text that unambiguously comes to a requirement they don't agree with

<https://public-inspection.federalregister.gov/2024-14543.pdf>

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