

Retirement Tax Issues

Chapter 6

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- SIMPLE IRA limits that are anything but Simple!
- Required Minimum Distributions from inherited retirement accounts
- Roth IRAs and Roth conversions
- New for 2026 – Catch-up contributions

SIMPLE IRA Limits (not in the book) New for 2025 and going forward (adjusted for inflation).

- \$16,000 Regular elective limit
- \$ 3,500 Catch up (over 50)
- \$ 5,250 Catch up if you are turning 60,61,62,63 by year end (150%)

HOWEVER...

If the employer has no more than 25 employees

- The employees get an additional 10% deferral (based on the 2024 limits – indefinitely)). That means:
- \$16,500 Regular elective limit
- \$ 3,850 Catch up (over 50)
- \$ 5,250 Catch up (60-63 years old) (This does not get increased because this contribution was not in existence in 2024)
- If an employer with 26+ employees sponsors the enhanced employer contribution amounts, the employee deferral contribution limits would be the same as the Under 26 Employees above.

Voluntary Additional Simple IRA Non-elective Contribution

- Employers may make an additional non-elective contribution
- Earlier rule was either 3% matching or 2% non-elective
- Starting in 2024, employers may now make an additional non-elective employer contribution to ALL eligible employees based on the LESSER of 10% of compensation or \$5,000

As long as we're talking about catch-up contribution limits...

- 401k and 403b plans also have increased limits for those ages 60-63.
- They also get the 150% of the limit, so the regular catch-up in 2025 is \$7,500, and those ages 60-63, the limit is \$11,250.
- (Noted on page 218)

Catch-up Roth Contributions: New Regulations for 2026 (Issue 4, pg. 215)

- From Secure 2.0
- For 401k, 403b, and 457 plans (not SEP or SIMPLE)
- If social security wages were over **\$145,000** in prior year, ALL catch-up contributions must be Roth contributions
- The plans must allow Roth contributions, or there are no catch-ups allowed
- 26 CFR Part 1, TD 10033 provides guidance, released in September
- Note – the book says \$150,000, but was written before the final guidance came out – change it on pg 217 and in the examples

Catch-up Roth contributions, continued

- If you don't have W-2 FICA wages from the employer in the prior year, you are not subject to the limit.
- Self-employment wages (schedule C or pass-through partnership income) don't count for these calculations.
- The employer must have the option to make Roth contributions as part of the plan, or the employee cannot make additional contributions.

Required Minimum Distributions from Inherited IRAs (Issue 1, pg 203)

- July 19, 2024, final regulations were finally published
- Beginning effective date is 2025
- If person died before RMD age, there are no required annual distributions for pre-tax accounts
- If person died after RMD age, there is an RMD for pre-tax accounts, based on the life-expectancy of the beneficiary
- Roth IRA accounts do not have RMDs
- Account must be emptied by December 31 of the year that includes the tenth anniversary of the date of the employee's death.

Review of RMD ages

- Currently, age is 73, folks born before December 31, 1959 (2032) (correction on page 204)
- Folks born on or after January 1, 1960, applicable age is 75 (2035)
- This means we will have another gap where there are not RMDs starting, in 2033 and 2034

Designating a Trust as Beneficiary of a Retirement Account (Issue 2)

- See-through trust – certain beneficiaries of a trust are treated as the beneficiaries of the employee (and not the trust itself)
 - The trust must be valid under state law
 - The trust is irrevocable
 - The beneficiaries of the trust are identifiable
 - Specified documentation requirements are satisfied
- Usually used if distributions are to be made to a minor child or other person who needs protection

Roth IRAs (Issue 3)

- Roth IRA contributions
 - Income must be under \$236K MFJ or \$150K Single, HoH, MFS and living separately for the entire year or \$0 MFS and living with spouse. Then amounts are phased out.
 - Contribution limit for 2025 \$7,000 (plus \$1,000 catch-up for 50+)
 - Employer plan contributions don't count toward the limit

Roth IRA Distributions - Qualified

- Principal amounts may be withdrawn at any time, with no tax or penalty
- Qualified distributions – no tax or penalty on the earnings
 - Made after the 5 year period beginning with the first tax year for which a contribution was made to ANY Roth IRA established for the individual's benefit, and
 - On or after the owner reaches age 59.5, or
 - Owner is disabled, or
 - After the death of an owner, or
 - For the purchase of a first home (\$10,000 lifetime limit)

Roth IRA Distributions - Nonqualified

- If the above conditions are not met, 10% additional tax on early distributions, along with ordinary income tax rates.
- Distributions of conversion amounts within a 5 year period also subject to the 10% penalty and ordinary tax rates, with an exception
- If the Roth IRA owner died, so it is an inherited Roth account, but still inside the 5 year window after conversion, the 10% penalty is waived, but the earnings are taxable
- List of exceptions to this on page 213

Roth Conversions – are they worth it?

- Having Roth funds in retirement gives more flexibility – if an unexpected expense comes up, you have another bucket to choose from
- There are no RMDs from Roth accounts
- If you have a client with high pre-tax retirement accounts, and lower income, it may make sense to fill up the 24% tax bracket with conversions
- With early retirement, there is a great opportunity to do so, even if it means higher IRMAA for a few years, if the client has the funds outside of retirement to pay the taxes.
- Still have the 5 year rule, above, so if you convert assets to a Roth and die before the 5 year waiting period is over, the beneficiaries just need to finish out those 5 years before drawing on the assets – and best for them to wait the full 10 years after death to allow the most tax-free growth.
- With a taxable estate, qualified assets are taxed twice – once as part of the estate value, and again when they are pulled out of the account. Roth assets are only taxed once at the estate level.