CLEARVIEW WEALTH MANAGEMENT

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White House Proposes Changes to Retirement Plans

A look at some of the ideas contained in the 2017 federal budget.

Will workplace retirement plans be altered in the near future? The White House will propose some changes to these plans in the 2017 federal budget, with the goal of making such programs more accessible. Here are some of the envisioned changes.

Pooled employer-sponsored retirement programs. This concept could save small businesses money. Current laws permit multi-employer retirement plans, but the companies involved must be similar in nature. The White House wants to lift that restriction.[1,2]

In theory, allowing businesses across disparate industries to join pooled retirement plans could result in significant savings. Administrative expenses could be reduced, as well as the costs of compliance.

Would governmental and non-profit workplaces also be allowed to pool their retirement plans under the proposal? There is no word about that at this point.

This pooled retirement plan concept would offer employees new degrees of portability for their savings. A worker leaving a job at a participating firm in the pool would be able to retain his or her retirement account after taking a job with another of the participating firms. Along these lines, the White House will also propose new ways to make it easier for workers to monitor and reconcile multiple workplace retirement accounts.[2,3]

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Scant details have emerged about how these pooled plans would be created or governed, or how much implementing them would cost taxpayers. Congress will be asked for $100 million in the new budget draft to test new and more portable forms of retirement savings accounts. Presumably, many more details will surface when the proposed federal budget becomes public in February.[2,3]

Automatic enrollment in IRAs. In the new federal budget draft, the Obama administration will require businesses with more than 10 employees and no retirement savings program to enroll their workers in IRAs. This idea has been included in past federal budget drafts, but it has yet to survive bipartisan negotiations – and it may not this time. Recently, the myRA retirement account was created through executive action to try and promote this objective.[1,3]

A lower bar to retirement plan participation for part-time employees. Another proposal within the new budget would allow anyone who has worked for an employer for more than 500 hours a year for the past three years to participate in an employer-sponsored retirement plan.[2]

A bigger tax break for businesses starting retirement plans. Eligible employers can receive a federal tax credit for inaugurating a retirement plan – a credit for 50% of what the IRS deems the employer's "ordinary and necessary eligible startup costs," up to a maximum of $500. That credit (which is part of the general business credit) may be claimed for each of the first three years that the plan is in place, and a business may even elect to begin claiming it in the tax year preceding the tax year that the plan goes into effect. The White House wants the IRS to boost this annual credit from $500 to $1,500.[2,4]

Also, businesses could receive an annual federal tax credit of up to $500 merely for automatically enrolling workers in their retirement plans. As per the above credit, they could claim this for three straight years.[2]

What are the odds of these proposals making it into the final 2017 federal budget? The odds may be long. Through the decades, federal budget drafts have often contained "blue sky" visions characteristic of this or that presidency, ideas that are eventually compromised or jettisoned. That may be the case here. If the above concepts do become law, they may change the face of retirement plan participation and administration.

Citations.

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3 - bloomberg.com/politics/articles/2016-01-26/obama-seeks-to-expand-401-k-use-by-letting-employers-pool-plans [1/26/16]
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Congress Gives Some "Holiday Gifts" to Taxpayers

Some key federal tax breaks are made permanent... at last.

During the past few Decembers, taxpayers and tax preparers have waited anxiously for Congress to rescue expiring federal tax provisions. Usually, legislators pass an eleventh-hour bill to extend certain tax perks for another year and reinstate them for the current year.

The Protecting Americans from Tax Hikes Act of 2015, or PATH – just passed by Congress, just signed into law by President Obama – not only renews 52 expiring tax provisions but makes some permanent. You may be a taxpayer who benefits from its passage.[1,2,]

Would you like to make a tax-free transfer of IRA assets to a charity? PATH makes that opportunity permanently available to you. A traditional IRA owner at least 70½ years old may make a charitable gift from that IRA to a qualified charity and exclude the transferred amount from their gross income for the tax year in which the gift is made. This is a tax-efficient move for wealthy, older IRA owners who see their annual Required Minimum Distribution (RMD) as more of a tax issue than a necessity.[3]

Does your business do any research or development? The federal R&D tax credit is now permanent – and in a sense, even sweeter. Any company with less than $50 million in gross receipts may use the R&D credit to counter the Alternative Minimum Tax next year and every year. Thanks to PATH, even some start-ups not yet facing income tax may be able to offset payroll taxes via this credit.[2]

Are you thinking about remodeling your restaurant or retail business? PATH preserves and makes permanent the 15-year period for depreciating remodeling and other improvements. No going back to the old 39-year period.[3]

Are you hoping those bigger Section 179 deduction limits will remain in place? They will. PATH preserves the current $500,000 immediate deduction limit of the cost of qualifying asset acquisitions, and the current phase-out starting at $2 million. Going forward, both of these thresholds will be inflation-indexed. In related news, PATH also keeps the 50% "bonus depreciation" provision in place through 2017 and extends it to restaurants and retail businesses that are owned as well as leased.[2,3]

Do you take advantage of the Child Tax Credit? In 2009, the CTC was enhanced to offer parents a $1,000 credit per qualifying child plus an additional (refundable) *tax* credit equal to 15% of any earned income over $3,000. This $3,000 threshold (which was set to return to the $10,000 level in 2017) becomes permanent thanks to PATH.[2]

Would you like to claim the American Opportunity Tax Credit? If so, you will be pleased to know that this college education credit will not shrink to $1,800 in 2017. It will remain at $2,500 thanks to PATH. The current phase-out levels ($80,000 for single filers, $160,000 for joint filers) will also remain in place.[2]

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Do you live where there are no state income taxes? PATH makes the itemized federal deduction for state and local sales taxes a permanent option for you.[2]

Are you a teacher who takes the above-the-line deduction for K-12 school supplies? PATH makes that deduction permanent as well and indexes it for inflation.[2]

Businesses get a 2-year reprieve from the Cadillac tax. Companies sponsoring high-priced health insurance plans will not have to face this tax until 2018 thanks to PATH.[3]

PATH suspends the 2.3% excise tax on medical devices for 2 years. This tax, which represents 2.3% of what importers and manufacturers pay on sales of certain healthcare equipment, will resurface in 2018.[3]

PATH extends some tax perks only through 2016. Most notably, it continues the tax exclusion on canceled home loan debt for another year. It also preserves the current $4,000 limit for the above-the-line tuition deduction for college education.[2]

Tax breaks rewarding homeowners, homebuilders, and contractors for energy efficiency are also preserved for another year by PATH. Builders and contractors may still take advantage of a credit as large as $2,000 for manufacturing energy-efficient residences, and the 179D deduction is still available for those who build green or make qualifying HVAC and lighting improvements to commercial properties. Home energy tax credits of up to $500 will still reward taxpayers who make energy-saving upgrades to their primary residence.[2]

PATH may be your route to some significant tax savings. You will have to act fast to claim them for 2015, but you have plenty of time to take advantage of these opportunities in 2016.

Citations.

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Thought for the Day

"Life isn't about waiting for the storm to pass… It's about learning to dance in the rain."

~ Anonymous ~