Retirement Planning Under the Tax Cuts and Jobs Act: What You Need to Know

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Bipartisan Budget Act Changes to Hardship Distributions

- The 6-month prohibition on new contributions will be eliminated (plan years beginning after 12/31/18)
- Allows hardship distributions of QNECs, QMACs and earnings of QNECs, QMACs and salary deferrals(plan years beginning after 12/31/18)
- No more loan-first requirement

Rollovers of Improper Levies

- Allowed up to tax deadline (w/out extension) for year in which amounts were returned

- Can include interest

New Form 1040-SR

- New simplified income tax return for taxpayers 65 or older
- No limitation on income
- Income can include Social Security benefits, retirement plan distributions, interest, dividends and capital gains
- First available for 2019 returns

Tax Treatment of Advisor Compensation Post-TCJA

- Advisory fees are no longer deductible
  - TCJA suspends miscellaneous itemized deductions until 2026
  - Some weren't able to deduct before anyway
    - 2% AGI hurdle
    - AMT
- Roth IRA advisory fees
  - If at all possible, have clients pay for such fees with after-tax funds

Tax Treatment of Advisor Compensation Post-TCJA

- There are still ways to get a psuedo-deduction
  - Commissions
  - Pooled investment funds (i.e. mutual fund)
  - Pull traditional IRA advisory fees directly from the client's traditional IRA (trade-off of reducing tax-deferred asset)

Plan Loan Offsets Post-TCJA

- TCJA created an extended rollover window
  - Previous law: 60-days from receipt of distribution
- New law: Up to due date of client's return (including extensions)
- Be mindful of the differences between plan loan offsets and deemed distributions

Increased Incentive for Business Owners to Create Retirement Plans

- New QBI (0% pass-through) deduction can be phased out if a client's taxable income exceeds certain amounts
  - $157,500 for all filers (except married joint)
  - $315,000 for married-joint filers

- Retirement plan contributions can give clients a double deduction!

QBI Deduction Overview

- "A below-the-below-the-line" deduction
- Business owners of specialized trade or service businesses have QBI deduction reduced/eliminated as income increases
- Business owners of other businesses MAY have QBI deduction reduced/eliminated as income increases
  - Deduction can be "saved" by:
    - W-2 wages
    - Depreciable assets

QBI Deduction Overview

- Changes the tax-efficiency of certain investments
- Revisit asset location plan

2017 Roth Conversion Planning

- October 15, 2018 was deadline to recharacterize a 2017 Roth IRA conversion
  - The client's account dropped in value since the conversion
  - The tax bill is more than they expected
  - Your client changed their mind
  - The client is better off converting using post-TCJA rates

Roth/Traditional IRA Contributions Post-TCJA

- Could continue to be recharacterized up through October 15th of year after year for which contribution was made
  - Client "accidentally" goes over Roth contribution AGI threshold
  - Client is surprised to be under the Roth IRA contribution threshold
  - Client would like to get the traditional IRA tax deduction

Roth Conversion Planning Post-TCJA

- Roth IRA conversions can no longer be recharacterized

- Eliminates certain strategies
  - Cherry-picking the winners/losers
  - “Old-school” Roth conversion cost averaging
  - Convert now and decide how much to keep later

Roth Conversion Planning Post-TCJA

- Makes pre-conversion planning MUCH more important
- 3 key steps BEFORE making any Roth conversion
  - Get a Rough estimate of the conversion's potential impact on your client's tax bill
  - Make sure you have a reasonable expectation that the benefits of "pre-paying" taxes via a Roth IRA conversion make sense in the client's overall plan
  - Develop a strategy for paying the additional taxes your client will owe as a result of the conversion

Roth Conversion Planning Post-TCJA

- In the past, the “best” time to convert was almost always early in the year

- When is the “best” time of year to convert now?

- Converting early in the year allows all future appreciation to occur within the Roth account

- Converting late in the year allows you to more accurately project a client’s taxable income

Roth Conversion Planning Post-TCJA

- There are still strategies savvy advisors can use to maximize Roth IRA conversions
- 2018 Roth-conversion-cost-averaging
- Roth conversions “barbelling”

Summary of Roth Conversion-Cost-Averaging

Step 1: Project your client's taxable income for the year.

Step 2: Determine how much it would make sense to convert if your client's income is exactly as projected. If the answer here is $0, stop. Do not initiate any conversions yet.

Step 3: Divide the amount determined in step #2 into monthly, bimonthly, quarterly or other regular interval conversions.

Step 4: Begin making regular Roth IRA conversions as determined in step #3.

Step 5: Throughout the year, regularly update your taxable income projections and adjust remaining conversions accordingly.

Summary of Roth Conversion “Barbelling”

Step 1: Determine a reasonable range for client’s taxable income for the the year.

Step 2: Determine how much it would make sense to convert if the client’s income was at the low end of the range. If the answer is $0, stop. A Roth IRA conversion likely does not make sense this year.

Step 3: Convert the amount that would make sense if the client was on the high end of the income range.

Step 4: Towards the end of the year, when taxable income can more accurately be forecast, project the client’s taxable income again.

Step 5: Using the results of your analysis from step #4, determine the additional amount that can be tax efficiently converted for the year and complete that conversion before the end of the year (if the client’s funds *leave* the distributing account by December 31, 2018, it will be considered a 2018 conversion, even if the funds don’t make it into the Roth IRA until 2019).

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