Retirement savings items in proposed 2016 federal budget

By Editorial Staff *Fri, Feb 13, 2015*

Though several of these proposals have been rejected or ignored by Congress in the past and may be ignored again, President Obama included a number of items in his 2016 budget request that could, if enacted, dramatically impact the retirement industry.

Several items in President Barack Obama's proposed 2016 fiscal year budget proposal, which was released on February 2, would, if enacted, impact tax-preferred savings vehicles, including IRAs and employer-sponsored retirement plans. (For a proprietary briefing on the proposals from Wolters Kluwer, click **here**.) For instance:

- Accumulations in IRAs and qualified retirement plans would be capped at roughly $3.4 million in current dollars (to be indexed). This is the amount that under actuarial equivalency would generate annual distributions equal to the defined benefit payout limit of $210,000 per year (2015 limit).
- The tax benefits of deductions and exclusions, including IRA contributions and employee deferrals into retirement plans, would be capped at 28%. For persons in taxing brackets above 28% percent, the tax-saving value of deductions and exclusions would be limited to 28 cents on each dollar deducted or excluded from income, not the normally higher value associated with higher taxing brackets. However, for individuals impacted by this rule, basis in such retirement contributions would be adjusted, presumably to prevent double taxation.
- Employers that have been in business two or more years and have more than 10 employees, but have no retirement plan, would be required to establish an automatic enrollment payroll-withholding IRA savings program.
- A tax credit of $1,000 per year for three years would be available to small businesses (fewer than 100 employees) that establish an automatic IRA program. An additional $25 per-employee credit, up to a maximum of $250, could be claimed for up to six years, available to both exempt and non-exempt employers.
- The maximum small employer retirement plan start-up tax credit (not including plans with automatic IRAs) would triple from the current $500 annual limit to $1,500 per year.
- Small employers sponsoring an existing deferral-type retirement plan would receive an additional $1,500 tax credit for adding an automatic enrollment feature.
- Employees with at least 500 hours of service for three consecutive years would be required to be eligible to make deferral contributions to their employer's deferral-type plan. While such employees would earn vesting service credit for such years, the plan would have deferral and top-heavy testing relief with respect to these employees.
- The unemployment-related exception to the 10% additional tax on early distributions from IRAs would be broadened to include defined contribution plans, permit use of the

assets for reasons other than health insurance premiums (the current IRA limitation), and provide minimum and maximum amounts that would be available under this provision.
- A lifetime income annuity contract could be distributed from a plan for rollover to an IRA or another retirement plan without a normally required distribution trigger, if this investment option ceased to be offered by the originating plan.
- Most non-spouse beneficiaries inheriting IRA or retirement plan assets would be required to distribute such amounts within five years, rather than over their life expectancy.
- Taxpayers could exclude combined IRA and retirement plan assets up to $100,000 from required minimum distribution (RMD) calculations.
- Only pretax amounts in Traditional IRAs or retirement plans would be eligible for conversion or rollover to a Roth IRA.
- Roth IRAs would become subject to the same RMD rules as Traditional and SIMPLE IRAs.
- Roth IRA contribution eligibility would end at age 70½, as it does with Traditional IRAs.
- Non-spouse beneficiaries would be permitted to transfer inherited retirement plan and IRA assets to another eligible account by indirect (60-day) rollover.
- Net unrealized appreciation (NUA) tax treatment for employer securities distributed from retirement plans would be eliminated; those reaching age 50 on or before December 31, 2015, would be grandfathered and would continue to be allowed such tax treatment.
- Employer contributions (in addition to employee deferrals) would be required to be reported on IRS Form W-2, *Wage and Tax Statement*.
- The Treasury Department would be granted authority to reduce the 250-return threshold for mandatory electronic filing of forms in the 1098, 1099, 5498 and 8955-SSA series.
- The Coverdell education savings account statute would be repealed, according to the proposed budget. (The administration had also advocated eliminating tax benefits for future contributions to IRC Sec. 529 college savings plans, but has reportedly abandoned this proposal due to widespread opposition.)