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October 2023

Re: New Retirement Plan Rules & Annual Client Appreciation Event!

Dear Clients, Colleagues, and Friends:

Automatic Enrollment for Pension Plans. Unless an employee opts out - and subject to quite a few exceptions - starting in 2024, employers will be required to enroll their employees in the company's §401(k) or §403(b) pension plan. The employee will be required to contribute between 3% and 10% of their pay with a 1% annual escalation to up to 15% of pay.[1]

Age Increase for Required Minimum Distributions (RMDs). Starting in 2023, the RMD age increases from 72 to 73. In a little less than a decade, the RMD age will increase again to 75. In the event that you do not make the required withdrawal, the penalty has been reduced from 50% of the RMD amount to 25%. Furthermore, only a 10% penalty applies if the failure to withdraw is corrected in a timely manner, pursuant to certain rules.

Tax-Free Rollovers from §529 Accounts to Roth IRAs. Starting in 2024, a beneficiary of a §529 college savings account older than 15 years can roll it over into a Roth IRA without tax or penalty. The §529 account must have been in existence for more than 15 years, and no more than $35,000 in aggregate may be rolled over. Rollovers are also subject to the Roth IRA annual contribution limits[2]. Thus, in many situations the rollover will be over the course of several years. Nevertheless, this is an excellent strategy for unused §529 balances.

Simple and SEP Roth IRAs. Starting in 2023, employees can treat contributions to their employer's Simple IRAs and SEPs as nondeductible Roth contributions.

Expanding Exceptions to the 10% Withdrawal Penalty. The general rule is that pension plan withdrawals prior to age 59½ results in a 10% penalty, *and* the distribution is reported as income. Starting in 2024, and subject to certain dollar limitations, time constraints, and definitions, penalty-free distributions will be allowed for (a) individuals suffering from a terminal illness, (b) victims of domestic abuse from their spouse or domestic partner including physical, psychological, sexual, emotional, or economic abuse, and (c) individuals suffering economic losses from "the disaster" when living in a qualified disaster zone. ***Tax Tip!*** There are now about two dozen exceptions to the 10% early withdrawal penalty.

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[1] Keep in mind the maximum contribution rules still apply. Generally, for 2024 the most an employee can contribute to a §401(k) or §403(b) plan is $23,000 before any catch-up contributions.

[2] The 2023 Roth IRA contribution limits (for under 50 and 50+, respectively) are $6,500 and $7,500. For 2024, they are $7,000 and $8,000.

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New Catch-Up Pension Plan Contribution Rules. Once you reach age 50, you are generally permitted to make an extra contribution ("the 50-year catch-up") to your §401(k) or §403(b) pension plan. For 2023, the 50-year catch-up limit is $7,500. Three new, notable rules: (1) starting in 2025, there will be a "super catch-up" for those between ages 60 and 63 of up to 150% of the 50-year catch-up, (2) the 50-year catch-up contribution is scheduled to increase for inflation in the near future, and (3) if you make over $145,000, any catch-up contributions are treated as nondeductible Roth contributions. ***Tax Tip!*** Our Year-End Tax Newsletter will keep you apprised of these "moving target" rules and limitations.

Pension Plans of Decedents. For most pension plan and IRA owners who pass away after 2019, the entire balance of their account must be distributed within ten years. There are, however, a few provisions to the "10-year rule" allowing exceptions for surviving spouses, minor children, disabled individuals, and beneficiaries less than 10 years younger than the decedent.

Harvesting Long-Term Capital Gains. The 2023 stock and real estate markets have been strong, so the 0% capital gain rate provides a great tax saving opportunity if you have unrealized long-term capital gains and your taxable income is in the "Sweet Zone." The Sweet Zone is *usually* around $59,000 of income for singles, and about $118,000 for married couples filing a joint return. For example, consider a married couple with $55,000 of ordinary income and a realized capital gain of $63,000. Their federal taxes are only about $3,000! Plus, the 0% capital gain rate provides an excellent opportunity to "rebalance" your portfolio and increase your tax basis. ***Tax Tip!*** There are several combinations of income and deductions to exploit the 0% capital gain rate. Call our office at 918-901-9000 to find out if you qualify.

You're Invited: Annual Client Appreciation Event

When: Thursday, November 2nd, 2023
4:30 pm to 7:00 pm

Where: Paul H. Burgess & Co.
Attorney & CPAs
1619 South Boston Avenue
Tulsa, Oklahoma 74119

Who: Clients, Colleagues, and Prospects

Custom cutting board from Wood Monger Designs

What: Our 2nd Annual Client Appreciation night is a chance to meet our team, enjoy light refreshments in the comfort of our office, and pick up a few year-end tax planning tips. Bring the enclosed ticket[3] to enter our drawing for several door prizes from Wood Monger Designs. We will not have a structured schedule, so feel free to come and go as you please. We hope to see you there!

[3] We will have extra tickets for each guest who needs one. No formal invite required to attend.