

Year-End News Brief

Winter 2024

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Retirement Plan and IRA Required Minimum Distributions

By John Bilotti, CPA and Michelle Flinn, CPA

On July 19, 2024, the IRS released the final regulations relating to required minimum distributions (RMDs) from the SECURE and SECURE 2.0 Acts. This article will discuss some of the changes provided by the final regulations.

The SECURE 2.0 Act has significantly changed RMD rules, most notably raising the age at which individuals must begin taking RMDs to 73, effective for individuals reaching age 72 in 2023 and beyond. Prior to the SECURE 2.0 Act, individuals were required to start taking RMDs from their retirement accounts at age 72.

For example, if a taxpayer reached age 73 in 2024, their first RMD would be required in 2024 and it would be calculated based on the balance at the end of 2023. The first RMD can be taken by April 1st of the year following when the taxpayer turns 73 but that means the taxpayer has to take two RMDs in that year. For the example above, the taxpayer could wait to take their RMD in 2025 (before April 1), but they would need to take the RMD for 2024 and 2025 in 2025.

The calculation method for RMDs remains largely unchanged, but it is critical to use the correct life expectancy tables based on the new RMD age.

Division of Designated Beneficiaries Under SECURE Act 2.0

An eligible designated beneficiary (EDB) under the SECURE 2.0 Act is an individual who can inherit an IRA or 401(k) account and is subject to certain distribution requirements:

Who qualifies as an Eligible Designated Beneficiary (EDB)?

An EDB can be a surviving spouse, a minor child, a disabled or chronically ill individual, or someone who is no more than 10 years younger than the deceased account owner.

- Distribution options - An EDB can take the entire amount in a lump sum, withdraw the balance over their lifetime, or empty the account within 10 years.
- Exceptions - There are some exceptions for EDBs, including a minor child who reaches the age of majority is no longer considered an EDB after age 21. There are other exceptions for spouses, including a spouse being able to treat the account as their own or they can decide to become a non-eligible designated beneficiary anytime during the 10-year period with stipulations.

Who qualifies as a Non-Eligible Designated Beneficiary?

A "non-eligible designated beneficiary" under the SECURE Act 2.0 refers to an individual who is named as a beneficiary of a retirement account but does not meet the specific criteria to be considered an "eligible designated beneficiary." They must withdraw the inherited funds within a 10-year period, unlike eligible beneficiaries who can stretch out withdrawals over their life

Retirement Plan and IRA Required Minimum Distributions

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expectancy. Most non-spouse beneficiaries fall under this category under the current rules for example most adult children of the decedent fall into this category.

- **Distribution Option** - The primary characteristic of a non-eligible designated beneficiary is the requirement to distribute the inherited retirement account within 10 years of the account owner's death.
- **Distinction from eligible designated beneficiaries:** While some beneficiaries, like a spouse or a disabled child, can qualify as "eligible designated beneficiaries" and utilize their life expectancy to calculate withdrawals, non-eligible designated beneficiaries cannot.

RMD & Distribution Requirements

If the original account owner began taking required minimum distributions (RMDs) or reached the age required to take RMDs, the beneficiary must take RMDs each year. If the account owner does not begin taking RMDs or the retirement account is a ROTH account, the beneficiary does not have to take RMDs and either needs to empty the account in 10 years (non-eligible designated beneficiaries) or rollover to an inherited account (EDB) and take distributions as they would like.

New Rule for Surviving Spouses

This new rule is effective in 2024, it allows surviving spouses to be treated as the deceased employee for RMD purposes where the spouse is designated as the sole beneficiary and RMDs have not yet begun. This provision effectively negates the need under prior law to roll the deceased spouse's plan interest into an IRA to receive a more favorable distribution period. Distributions are not required to begin earlier than the applicable age date of the deceased employee.

If a surviving spouse initially uses the 10-year rule and later decides that they'd like to treat the deceased spouse's IRA as their own (complete spousal rollover) they will need to 'make up' any RMDs they would have needed to have taken had the funds been hypothetically been in their IRA all along.

Penalty Relief Provision Under SECURE Act 2.0

There will be no additional excise tax penalty for missed RMDs for 2021, 2022, 2023 & 2024.

One provision coming out of IRS final regulations is that penalties from missed RMD's beginning after January 1, 2025, will be enforced. The reduction of the 50 percent penalty to 25 percent, and to 10 percent if the missed RMD was made up within two years. The penalty reduction has been in effect since January 1, 2023

While there is no catch up required for the missed RMDs, they were technically still required to be taken during those years even though there will be no penalty assessed on the missed RMD payments.

There is an automatic waiver of penalties for the year in which there is a RMD shortfall for certain beneficiaries. This gives most beneficiaries up to December 31st of the year after death to satisfy the decedent's year-of-death RMD.

If you have questions related to this year's RMD changes, please reach out to your Sciarabba Walker contact or send us an email at info@swcllp.com.



Employee Benefit Plan Administration and Tips

By Elyse McMillen, CPA

As the year comes to a close, it's the perfect time to ensure that your organization's processes are in order, particularly in areas critical to retirement plan compliance and administration. Below, we highlight several key areas that demand attention and share the importance of these areas.

The Value of Meeting Minutes - Meeting minutes serve as a vital record for your organization's decisions and discussions, particularly for fiduciary meetings involving 401(k) or 403(b) plans. These records are essential for demonstrating compliance with plan oversight responsibilities. Minutes provide an official record of decisions related to investment lineups, administrative reviews, and plan amendments. Without thorough documentation, you may face challenges during audits or regulatory reviews.

To ensure accuracy, include:

- Meeting dates and participants.
- Topics discussed and decisions made.
- Follow-up actions or timelines.

Accurate meeting minutes also help in maintaining continuity during staff transitions and can serve as a reference point when addressing participant questions or disputes.

Reviewing SOC 1 Reports

SOC 1 reports are critical tools for evaluating the internal controls of service providers managing your retirement plans. These reports can identify risks that could impact participant data, contributions, or distributions.

When reviewing a SOC 1 report:

1. Ensure it covers the reporting period applicable to your plan.
2. Review the auditor's opinion for qualifications or exceptions.
3. Assess user controls required by the plan sponsor.

Understanding the findings and addressing any gaps is essential to safeguarding your plan's compliance and operational integrity. If you're unsure how to interpret a SOC 1 report, we're here to guide you.

Timeliness of Contributions

Depositing participant contributions promptly is not just a best practice but a regulatory requirement. The DOL regulations require employee contributions to be remitted "to the plan as of the earliest date on which such contributions can be reasonably segregated from the employer's general assets." There is no "safe harbor" rule for plans with more than 100 participants. When examining a plan, the DOL reviews patterns of remittance history to determine the earliest date an employer can reasonably segregate and remit the employee contributions. Therefore, if the Plan was audited, it is possible that the DOL could consider

Failure to meet this standard can result in prohibited transactions, fines, and potential participant complaints. Use year-end as an opportunity to evaluate whether your processes meet timeliness requirements. If discrepancies are found, correcting them promptly can mitigate penalties and demonstrate good faith compliance.

Importance of Accurate Personnel Data

Maintaining up-to-date and accurate personnel data is a cornerstone of effective plan administration. Key data points such as Date of Birth (DOB), Date of Hire (DOH), and Date of Termination (DOT) are crucial for eligibility determination, vesting calculations, and compliance testing.

Errors in personnel data can lead to:

- Incorrect allocations.
- Miscalculated benefits.
- Failed compliance tests, which could result in costly corrections.

Take the time now to review personnel data and address any inconsistencies. This not only improves your compliance position but also ensures participants receive accurate information about their benefits.

New to the Audit Threshold? We're Here to Help

If your plan has exceeded the 100-participant threshold this year, you may be subject to an independent audit for the first time. This can be a daunting process, but preparation is key. By addressing these areas now, you'll not only ensure a smooth year-end but also set a strong foundation for the year ahead.

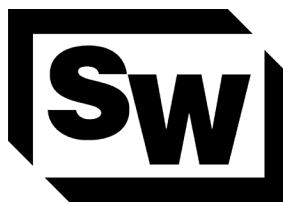
If you have questions or need assistance, don't hesitate to reach out to our team at info@swcllp.com. Together, we can help safeguard your plan's compliance, protect participant benefits, and reduce administrative burdens.

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Identity Protections PINs

By Taylor Moore, EA

Identity Protection PINs (IP PINs) are a six-digit number assigned to an individual to prevent someone else from filing a tax return under that individual's social security number (SSN) or Individual Taxpayer Identification Number (ITIN). This PIN is assigned by the Internal Revenue Service (IRS) annually for all returns filed during the calendar year (including prior returns). You are assigned an IP PIN automatically if you are a confirmed victim of tax-related identity theft and you will receive your IP PIN on notice CP01A that will be mailed to you annually. You can also obtain an IP PIN as a proactive step to help prevent tax-related identity theft – this is available to anyone with a SSN or ITIN.

How to obtain an IP PIN - The fastest way to proactively obtain an IP PIN is through your Online Account with the IRS – you can create an online account by registering and verifying your identity. If you obtain an IP PIN through your online account, you must retrieve your IP PIN from your online account each year – a CP01A notice will not be mailed. IP PINs are available starting mid-January through mid-November.

Alternatively, you can apply for an IP PIN using form 15227 if your adjusted gross income (AGI) is below \$79,000 for single filers or \$158,000 for married filers, and you have access to a phone for identification verification.

How to retrieve an IP PIN - If you have lost your IP PIN, do not file form 15227 to apply for a new one. You may use your online account to retrieve your IP PIN. You can also call 800-908-4490 for assistance prior to October 14th to have your IP PIN reissued. IP PIN's cannot be reissued after October 14th – if you are in this situation, you must paper file your return without the IP PIN and the processing of the return will be delayed while the IRS verifies the information on the return.

IP Pin Needed for Tax Return Filing - Your IP PIN should be provided annually to your tax preparer. The IP PIN must be included in the tax return submission for the return to be accepted by the Internal Revenue Service. An incorrect or missing IP PIN will cause electronically filed returns to be rejected, and paper filed returns will be subject to additional screenings to validate identity and will cause delays in processing the return.

Additional information regarding IP PINs can be found at IRS.Gov, including obtaining and retrieving IP PINs.