HICKS NOTES

NH HICKS Experience Counts
Legal and Pension Consultants
(800) 310-4975 | www.nhhicks.com

October 2020

By Tom Hicks, Attorney At Law

YEAREND RETIREMENT PLANNING BEGINS NOW

While 2020 has been a challenging year for all of us, retirement and tax planning is as imperative as ever. By understanding the issues that may arise and knowing how to deal with them, we can better serve our clients.

First, is knowing how our small business clients are doing this year? While COVID-19 restrictions may have decimated some small businesses, others are prospering and growing. Knowing this about our clients is essential for proper retirement and tax planning.

A faltering business will need to review any required contributions within a 401(k) safe harbor or defined benefit plan. Plan document will need to be amended and employee notices released to reduce any funding requirement. These changes are complex and affect other aspects of the plan.

A growing business has many options. If they sponsor a SEP, they should consider a 401(k) plan. If they sponsor a 401(k), adding a defined benefit plan for 2020 is a great option. Qualified plans will provide a greater benefit to business owners in terms of larger contributions and lower employee costs.

An employer with a SIMPLE IRA plan must wait until 2021 to start a qualified plan. But to do so, the employer needs to terminate their SIMPLE by notifying employees by November 2nd that the plan will terminate effective December 31, 2020. For the SIMPLE termination rules, click here.

While it is too late to start a safe harbor 401(k) for 2020, a 401(k) plan is available. The 401(k) contributions of owners and other highly compensated employees will be limited to 5% of compensation plus $6,500 catch-up contribution for those age 50 and older. Although participant contributions are lower for 2020, employer contribution are still available. Safe harbor contributions can be added effective January 1, 2021.

A small or owner-only business, such as a real estate agent or an independent consultant, will benefit from a solo 401(k), defined benefit plan or combination of the two.

By knowing how your clients are doing this year, you can plan and give them the deductions and savings they will need for the 2020 tax year.

Another area of concern is the fiduciary review requirements for existing 401(k) plans. Financial professionals have a duty to review, benchmark and document the investment providers they are using for their clients. COVID-19 and the lack of face-to-face meetings are no excuse for not meeting these requirements.

Now is the perfect time to call your existing clients and use this time to review the status of their business to plan and schedule employee educational meetings. New participants generally will become eligible in January and July, but all participants need to be informed of their plan and investment alternatives. Further, given market gains for this year, a review of portfolio allocations should be included in this yearend planning. For a full checklist of areas to be reviewed, click here.

2020 has been a year of numerous new laws, court cases and governmental rulings that present opportunities and relief for those affected by COVID-19.

The SECURE Act was passed in December 2019 providing changes to defined contribution plan, defined benefit plans, and individual retirement accounts (IRAs). The highlights include raising the Required Minimum Distribution (RMD) age to 72, covering long term part time employees with 401(k) plans, setting up plans after the yearend, and larger tax credits for starting new plans. For a further review of this new law, click here.

The CARES Act, signed into law on March 27, 2020, gives relief to those affected by COVID-19 in the areas of loans and distributions. Maximum loan is increased to $100,000 and repayments may be suspended for up to 12 months. Relief for distributions include the elimination of the 10% early withdrawal penalty and 20% mandatory withholding. In addition, Required Minimum Distributions from defined contribution plans and IRAs are waived for 2020. Defined benefit plans have also provided relief with regards to minimum funding, extended to January 2021, and amendments on reducing benefits.

It is important to know which provisions require COVID-19 diagnosis or have been directly affected by COVID-19 versus those that generally available regardless of the pandemic. For a complete list of COVID-19 relief options, click here.

Finally, while there is a lot going on, it is your job as an advisor to be able to spot the issues and opportunities these changes present. It is our job to be the experts and help you and your clients.

Join us for our 3 one-hour free webinars on these and other subjects and receive three continuing education credits available for CPAs and CFP®. These webinars will help you understand plan designs and the issues that your clients could be facing. View our agenda and register here.

As always, we are available for questions or to prepare free proposals at your request. Stay safe.