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Unclaimed property impacts of federal tax bill signed into law – HR 1865

On December 20, 2019 President Trump signed HR 1865 (Further Consolidated Appropriations Act) into law. Among many other tax law changes, the new law also created the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 which impacts the taxation of retirement accounts and will have unintended impacts on the escheatment of abandoned retirement accounts.

Title 1, Section 114 of the SECURE Act increases the required minimum distribution (RMD) age for retirement accounts under the Internal Revenue Code (IRC) from 70.5 to 72, effective for individuals who reach age 70.5 after December 31, 2019. Since the revision to the RMD date is prospective, it will not impact IRAs owned by individuals who reached age 70.5 in 2019. Conversely, under the new law, if an IRA owner reaches age 72 in 2020, they are required to take the RMD by April 1 of 2021.

Many state unclaimed property statutes include language in their IRA provisions which refer the RMD date as referenced by federal tax laws; however, states that have since adopted the Revised Uniform Unclaimed

Property Act (RUUPA) of 2016 have specific IRA provisions referencing age 70.5. Clearly, age 70.5 will no longer be in sync with federal law so it remains to be seen if RUUPA and RUUPA states will modify their laws to reflect age 72 or the RMD age. In the meantime, holders and service providers will need to check each state law to determine the correct reporting requirements.

Title 1, Section 107 repeals the maximum age for traditional IRA contributions (Paragraph 1 of section 219(d) of the IRC). Previously, IRA owners were only able to deduct contributions made into IRAs until they turned 70.5. Under the new law, there will be no limit to the age in which an individual can make and deduct contributions. This could result in more IRA contributions by older individuals, resulting in continued "contact/activity"; thus, reducing the escheatment of IRAs.

What does this mean to you?

Georgeson will continue to monitor states that propose revised legislation to increase the IRA triggers to be in sync with federal tax laws on an ongoing basis.

1. States (and RUUPA) that use age 70.5 in their IRA provisions are now out of sync with federal tax laws
2. The SECURE Act will create more inconsistency when escheating IRA accounts – some states will start the dormancy clock when the owner reaches age 70.5 and other states will start the clock on April 1 of the year following the owner reaching age 72.

Holders need to understand these differences and make sure their internal systems are updated to accommodate these different reporting requirements. If using a third-party reporting vendor, ensure that your vendor reporting systems are up to date as well.

Georgeson will continue to monitor states that propose revised legislation to increase the IRA triggers to be in sync with federal tax laws on an ongoing basis.

The full text of the SECURE Act can be found here.

This article is intended for informational purposes and is not to be considered legal advice. For additional questions concerning this alert, contact Dana Terry at dterry@georgeson.com or 201-539-1998.

Georgeson actively tracks legislative changes and periodically reaches out to states for updates. Review previous Unclaimed Property Alerts:

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