General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals

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PROVIDE FOR AUTOMATIC ENROLLMENT IN INDIVIDUAL RETIREMENT ACCOUNTS OR ANNUITIES (IRAS), INCLUDING A SMALL EMPLOYER TAX CREDIT, AND DOUBLE THE TAX CREDIT FOR SMALL EMPLOYER PLAN START-UP COSTS

Current Law

A number of tax-preferred, employer-sponsored retirement savings programs exist under current law. These include section 401(k) cash or deferred arrangements, section 403(b) programs for public schools and charitable organizations, section 457 plans for governments and nonprofit organizations, and simplified employee pensions (SEPs) and SIMPLE plans for small employers.

Small employers (those with no more than 100 employees) that adopt a new qualified retirement, SEP or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's plan "start-up costs," which are the expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years.

Individuals who do not have access to an employer-sponsored retirement savings arrangement may be eligible to make smaller tax-favored contributions to IRAs.

In 2013, IRA contributions were limited to $5,500 a year (plus $1,000 for those age 50 or older). Section 401(k) plans permitted contributions (employee plus employer contributions) of up to $51,000 a year (of which $17,500 can be pre-tax employee contributions) plus $5,500 of additional pre-tax employee contributions for those age 50 or older.

Reasons for Change

For many years, until the economic downturn in 2008, the personal saving rate in the United States has been exceedingly low. Tens of millions of U.S. households have not placed themselves on a path to become financially prepared for retirement. In addition, the proportion of U.S. workers participating in employer-sponsored plans has remained stagnant for decades at no more than about half the total work force, notwithstanding repeated private- and public-sector efforts to expand coverage. Among employees eligible to participate in an employer-sponsored retirement savings plan such as a 401(k) plan, participation rates typically have ranged from two-thirds to three-quarters of eligible employees, but making saving easier by making it automatic has been shown to be remarkably effective at boosting participation well above these levels.

Beginning in 1998, Treasury and the Internal Revenue Service (IRS) issued a series of rulings and other guidance defining, permitting, and encouraging automatic enrollment in 401(k) and other plans (i.e., enrolling employees by default unless they opt out). Automatic enrollment was further facilitated by the Pension Protection Act of 2006. In 401(k) plans, automatic enrollment has tended to increase participation rates to more than nine out of ten eligible employees. In contrast, for workers who lack access to a retirement plan at their workplace and are eligible to engage in tax-favored retirement saving by taking the initiative and making the decisions required to establish and contribute to an IRA, the IRA participation rate tends to be less than one out of ten.

Numerous employers, especially those with smaller or lower-wage work forces, have been reluctant to adopt a retirement plan for their employees, in part out of concern about their ability to afford the cost of making employer contributions or the per-capita cost of complying with tax-qualification and ERISA (Employee Retirement Income Security Act) requirements. These employers could help their employees save -- without employer contributions or plan qualification or ERISA compliance -- simply by making their payroll systems available as a conduit for regularly transmitting employee contributions to an employee's IRA. Such "payroll deduction IRAs" could build on the success of workplace-based payroll-deduction saving by using the capacity to promote saving that is inherent in employer payroll systems, and the effort to help employees save would be especially effective if automatic enrollment were used. However, despite efforts more than a decade ago by the Department of the Treasury, the IRS, and the Department of Labor to approve and promote the option of payroll deduction IRAs, few employers have adopted them or even are aware that this option exists.

Accordingly, requiring employers that do not sponsor any retirement plan (and meet other criteria such as being above a certain size) to make their payroll systems available to employees and automatically enroll them in IRAs could achieve a major breakthrough in retirement savings coverage. In addition, requiring automatic IRAs may lead many employers to take the next step and adopt an employer plan, thereby permitting much greater tax-favored employee contributions than an IRA, plus the option of employer contributions. The potential for the use of automatic IRAs to lead to the adoption of 401(k)s, SIMPLEs, and other employer plans would be enhanced by raising the existing small employer tax credit for the start-up costs of adopting a new retirement plan to an amount significantly higher than both its current level and the level of the proposed new automatic IRA tax credit for employers.

In addition, the process of saving and choosing investments in automatic IRAs could be simplified for employees, and costs minimized, through a standard default investment as well as electronic information and fund transfers. Workplace retirement savings arrangements made accessible to most workers also could be used as a platform to provide and promote retirement distributions over the worker's lifetime.

<u>Proposal</u>

The proposal would require employers in business for at least two years that have more than ten employees to offer an automatic IRA option to employees, under which regular contributions would be made to an IRA on a payroll-deduction basis. If the employer sponsored a qualified retirement plan, SEP, or SIMPLE for its employees, it would not be required to provide an automatic IRA option for its employees. Thus, for example, a qualified plan sponsor would not have to offer automatic IRAs to employees it excludes from qualified plan eligibility because they are covered by a collective bargaining agreement, are under age eighteen, are nonresident aliens, or have not completed the plan's eligibility waiting period. However, if the qualified plan excluded from eligibility a portion of the employer's work force or a class of employees such as all employees of a subsidiary or division, the employer would be required to offer the automatic IRA option to those excluded employees.

The employer offering automatic IRAs would give employees a standard notice and election form informing them of the automatic IRA option and allowing them to elect to participate or opt out. Any employee who did not provide a written participation election would be enrolled at a default rate of three percent of the employee's compensation in an IRA. Employees could opt out or opt for a lower or higher contribution rate up to the IRA dollar limits. Employees could choose either a traditional IRA or a Roth IRA, with Roth being the default. For most employees, the payroll deductions would be made by direct deposit similar to the direct deposit of employees' paychecks to their accounts at financial institutions.

Payroll-deduction contributions from all participating employees could be transferred, at the employer's option, to a single private-sector IRA trustee or custodian designated by the employer. Alternatively, the employer, if it preferred, could allow each participating employee to designate the IRA provider for that employee's contributions or could designate that all contributions would be forwarded to a savings vehicle specified by statute or regulation.

Employers making payroll deduction IRAs available would not have to choose or arrange default investments. Instead, a low-cost, standard type of default investment and a handful of standard, low-cost investment alternatives would be prescribed by statute or regulation. In addition, this approach would involve no employer contributions, no employer compliance with qualified plan requirements, and no employer liability or responsibility for determining employee eligibility to make tax-favored IRA contributions or for opening IRAs for employees. A national web site would provide information and basic educational material regarding saving and investing for retirement, including IRA eligibility, but, as under current law, individuals (not employers) would bear ultimate responsibility for determining their IRA eligibility.

Contributions by employees to automatic IRAs would qualify for the saver's credit to the extent the contributor and the contributions otherwise qualified.

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement could claim a temporary non-refundable tax credit for the employer's expenses associated with the arrangement up to $500 for the first year and $250 for the second year. Furthermore, these employers would be entitled to an additional non-refundable credit of $25 per enrolled employee up to $250 for six years. The credit would be available both to employers required to offer automatic IRAs and employers not required to do so (for example, because they have ten or fewer employees).

In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE to do so, the non-refundable "start-up costs" tax credit for a small employer that adopts a new qualified retirement, SEP, or SIMPLE would be doubled from the current maximum of $500 per year for three years to a maximum of $1,000 per year for three years and extended to four years (rather than three) for any employer that adopts a new qualified retirement plan, SEP, or SIMPLE during the three years beginning when it first offers (or first is required to offer) an automatic IRA arrangement. This expanded “start-up costs” credit for small employers, like the current “start-up costs” credit, would not apply to automatic or other payroll deduction IRAs. The expanded credit would encourage small employers that would otherwise adopt an automatic IRA to adopt a new 401(k), SIMPLE, or other employer plan instead, while also encouraging other small employers to adopt a new employer plan.

The proposal would become effective after December 31, 2015.

UPPER-INCOME TAX PROVISIONS

REDUCE THE VALUE OF CERTAIN TAX EXPENDITURES

Current Law

Under current law, individual taxpayers may reduce their taxable income by excluding certain types or amounts of income, claiming certain deductions in the computation of adjusted gross income (AGI), and claiming either itemized deductions or a standard deduction. The tax reduction from the last dollar excluded or deducted is $1.00 times the taxpayer's marginal income tax rate (e.g., if the marginal tax rate were 39.6 percent, then the tax value of the last dollar deducted would be 39.6 cents).

Certain types of income are excluded permanently or deferred temporarily from income subject to tax. These items include interest on State or local bonds, amounts paid by employers and employees for employer-sponsored health coverage, contributions to health savings accounts and Archer MSAs, amounts paid by employees and employers for defined contribution retirement plans, certain premiums for health insurance for self-employed individuals, certain income attributable to domestic production activities, certain trade and business deductions of employees, moving expenses, interest on education loans, and certain higher education expenses.

Individual taxpayers may elect to itemize their deductions instead of claiming a standard deduction. In general, itemized deductions include medical and dental expenses (in excess of 7.5 percent of AGI in 2014 for taxpayers age 65 or over and 10 percent of AGI for other taxpayers), state and local property taxes and income taxes, interest paid, gifts to charities, casualty and theft losses (in excess of 10 percent of AGI), job expenses and certain miscellaneous expenses (some only in excess of two percent of AGI).

For higher-income taxpayers, otherwise allowable itemized deductions (other than medical expenses, investment interest, theft and casualty losses, and gambling losses) are reduced if AGI exceeds a statutory floor that is indexed annually for inflation (so called Pease limitation).

Reasons for Change

Increasing the income tax liability of higher-income taxpayers would reduce the deficit, make the income tax system more progressive, and distribute the cost of government more fairly among taxpayers of various income levels. In particular, limiting the value of tax expenditures including itemized deductions, certain exclusions in income subject to tax, and certain deductions in the computation of AGI, would reduce the benefit that high-income taxpayers receive from those tax expenditures and help close the gap between the value of these tax expenditures for high-income Americans and the value for middle-class Americans.

Proposal

The proposal would limit the tax value of specified deductions or exclusions from AGI and all itemized deductions. This limitation would reduce the value to 28 percent of the specified exclusions and deductions that would otherwise reduce taxable income in the 33-percent, 35-percent, or 39.6-percent tax brackets. A similar limitation also would apply under the alternative minimum tax.

The income exclusions and deductions limited by this provision would include any tax-exempt state and local bond interest, employer-sponsored health insurance paid for by employers or with before-tax employee dollars, health insurance costs of self-employed individuals, employee contributions to defined contribution retirement plans and individual retirement arrangements, the deduction for income attributable to domestic production activities, certain trade or business deductions of employees, moving expenses, contributions to health savings accounts and Archer MSAs, and interest on education loans.

The proposal would apply to itemized deductions after they have been reduced by the statutory limitation on certain itemized deductions for higher-income taxpayers. If a deduction or exclusion for contributions to retirement plans or individual retirement arrangements is limited by this proposal, then the taxpayer's basis will be adjusted to reflect the additional tax imposed.

The proposal would be effective for taxable years beginning after December 31, 2014.

REQUIRE NON-SPOUSE BENEFICIARIES OF DECEASED INDIVIDUAL RETIREMENT ACCOUNT OR ANNUITY (IRA) OWNERS AND RETIREMENT PLAN PARTICIPANTS TO TAKE INHERITED DISTRIBUTIONS OVER NO MORE THAN FIVE YEARS

Current Law

Minimum distribution rules apply to employer sponsored tax-favored retirement plans and to individual retirement arrangements. In general, under these rules, distributions must begin no later than the required beginning date and a minimum amount must be distributed each year. For traditional IRAs, the required beginning date is April 1 following the calendar year in which the IRA owner attains age 70½. For employer-sponsored tax-favored retirement plans, the required beginning date for a participant who is not a five-percent owner is April 1 after the later of the calendar year in which the participant attains age 70½ or retires. Under a defined contribution plan or IRA, the minimum amount required to be distributed is based on the joint life expectancy of the participant or employee and a designated beneficiary (who is generally assumed to be 10 years younger), calculated at the end of each year.

Minimum distribution rules also apply to balances remaining after a plan participant or IRA owner has died. The after-death rules vary depending on (1) whether a participant or IRA owner dies on or after the required beginning date or before the required beginning date, and (2) whether there is an individual designated as a beneficiary under the plan. The rules also vary depending on whether the participant's or IRA owner's spouse is the sole designated beneficiary.

If a plan participant or IRA owner dies on or after the required beginning date and there is a non-spouse individual designated as beneficiary, the distribution period is the beneficiary's life expectancy, calculated in the year after the year of death. The distribution period for later years is determined by subtracting one year from the initial distribution period for each year that elapses. If there is no individual designated as beneficiary, the distribution period is equal to the expected remaining years of the participant's or IRA owner's life, calculated as of the year of death.

If a participant or IRA owner dies before the required beginning date and any portion of the benefit is payable to a non-spouse designated beneficiary, distributions must either begin within one year of the participant's or IRA owner's death and be paid over the life or life expectancy of the designated beneficiary or be paid entirely by the end of the fifth year after the year of death.

If the designated beneficiary dies during the distribution period, distributions continue to any subsequent beneficiaries over the remaining years in the distribution period.

If a participant or IRA owner dies before the required beginning date and there is no individual designated as beneficiary, then the entire remaining interest of the participant or IRA owner must generally be distributed by the end of the fifth year following the individual's death.

The minimum distribution rules do not apply to Roth IRAs during the life of the account owner, but do apply to balances remaining after the death of the owner.

Reasons for Change

The Internal Revenue Code gives tax preferences for retirement savings accounts primarily to provide retirement security for individuals and their spouses. The preferences were not created with the intent of providing tax preferences to the non-spouse heirs of individuals. Because the beneficiary of an inherited account can be much younger than a plan participant or IRA owner, the current rules allowing such a beneficiary to stretch the receipt of distributions over many years permit the beneficiary to enjoy tax-favored accumulation of earnings over long periods of time.

Proposal

Under the proposal, non-spouse beneficiaries of retirement plans and IRAs would generally be required to take distributions over no more than five years. Exceptions would be provided for eligible beneficiaries.

Eligible beneficiaries include any beneficiary who, as of the date of death, is disabled, a chronically ill individual, an individual who is not more than 10 years younger than the participant or IRA owner, or a child who has not reached the age of majority. For these beneficiaries, distributions would be allowed over the life or life expectancy of the beneficiary beginning in the year following the year of the death of the participant or owner. However, in the case of a child, the account would need to be fully distributed no later than five years after the child reaches the age of majority.

Any balance remaining after the death of a beneficiary (including an eligible beneficiary excepted from the five-year rule or a spouse beneficiary) would be required to be distributed by the end of the calendar year that includes the fifth anniversary of the beneficiary's death.

The proposal is effective for distributions with respect to plan participants or IRA owners who die after December 31, 2014. The requirement that any balance remaining after the death of a beneficiary be distributed by the end of the calendar year that includes the fifth anniversary of the beneficiary's death would also apply to participants or IRA owners who die before January 1, 2014, but only if the beneficiary dies after December 31, 2014. The proposal would not apply in the case of a participant whose benefits are determined under a binding annuity contract in effect on the date of enactment.

LIMIT THE TOTAL ACCRUAL OF TAX-FAVORED RETIREMENT BENEFITS

Current Law

Under current law, the maximum benefit permitted to be paid under a qualified defined benefit plan in 2014 is generally $210,000 per year and is adjusted for increases in the cost of living. The maximum benefit limit is reduced if distributions begin before age 62 and is increased if distributions begin after age 65. The maximum benefit is also adjusted if it is paid in a form other than a straight life annuity or a qualified joint and survivor annuity.

For a defined contribution plan, current law limits the amount of annual contributions or other additions to the account and applies a separate limit to elective deferrals made by taxpayers to the plan, but does not limit the amount that can be accumulated within the account. For 2014, the annual contribution limit is $52,000, and the elective deferral limit is $17,500. Each of these limits is adjusted for increases in the cost of living, and each limit is increased by $5,500 for taxpayers who are 50 or over. Similarly, current law limits the amount of the annual contribution to an individual retirement account or annuity (IRA), but does not limit the amount that can be accumulated within the IRA. The annual contribution limit for 2014 is $5,500 (adjusted for changes in the cost of living) with an additional $1,000 for taxpayers who are 50 or over.

While the limitations on the extent to which a taxpayer can make contributions to an IRA are applied based on aggregating all of the taxpayer's IRAs, the limitations on accruals under defined benefit plans and the limitations on contributions under defined contribution plans are not applied by aggregating all such arrangements. Instead, the aggregation is applied solely for multiple plans sponsored by the same employer or related employers, and for this purpose defined benefit plans are not aggregated with defined contribution plans. (Under a combined limit that was in effect from 1976 to 1996, an individual's projected benefits under defined benefit plans were combined with the individual's cumulative contributions under defined contribution plans maintained by the same employer). Furthermore, there is no aggregation for plans that are sponsored by unrelated employers and no coordination between the contribution limits that apply to IRAs and the limits that apply to plans. However, the Tax Reform Act of 1986 imposed an excise tax on excess distributions (and accumulations remaining at death in excess of approximately $1 million) from (or accumulated in) all qualified plans in which a taxpayer participated (including both defined contribution and defined benefit plans and both related and unrelated employers) and all of the taxpayer's IRAs. The excise tax was repealed in 1997.

Under current law, the annual limit on elective deferrals for a plan also serves as an overall limit on elective deferrals for a taxpayer who participates in 401(k) plans sponsored by unrelated employers. If a taxpayer's aggregate elective deferrals for a year exceed the limit for the year, the taxpayer must include the excess in income for the year of the excess deferral. A grace period is provided to allow taxpayers the opportunity to remove the excess deferrals. If the taxpayer fails to avail himself of this grace period and leaves the excess deferrals in the 401(k) account, then the excess deferrals and attributable earnings will be subject to income tax when distributed, without any adjustment for basis (and without regard to whether the distribution is made from a designated Roth account within a plan).

Reasons for Change

The current law limitations on retirement contributions and benefits for each plan in which a taxpayer may participate do not adequately limit the extent to which a taxpayer can accumulate amounts in a tax-favored arrangement through the use of multiple plans. Such accumulations can be considerably in excess of amounts needed to fund reasonable levels of consumption in retirement and are well beyond the level of accumulation that justifies tax-advantaged treatment of retirement savings accounts. Requiring a taxpayer who, in the aggregate, has accumulated very large amounts within the tax-favored retirement system to discontinue adding to those accumulations would reduce the deficit, make the income tax system more progressive, and distribute the cost of government more fairly among taxpayers of various income levels, while still providing substantial tax incentives for reasonable levels of retirement saving.

Proposal

A taxpayer who has accumulated amounts within the tax-favored retirement system (i.e., IRAs, section 401(a) plans, section 403(b) plans, and funded section 457(b) arrangements maintained by governmental entities) in excess of the amount necessary to provide the maximum annuity permitted for a tax-qualified defined benefit plan under current law (currently an annual benefit of $210,000) payable in the form of a joint and 100-percent survivor benefit commencing at age 62 and continuing each year for the life of the participant and, if longer, the life of a spouse, assumed to be of the same age would be prohibited from making additional contributions or receiving additional accruals under any of those arrangements. Currently, the maximum permitted accumulation for an individual age 62 is approximately $3.2 million.

The limitation would be determined as of the end of a calendar year and would apply to contributions or accruals for the following calendar year. Plan sponsors and IRA trustees would report each participant's account balance as of the end of the year as well as the amount of any contribution to that account for the plan year. For a taxpayer who is under age 62, the accumulated account balance would be converted to an annuity payable at 62, in the form of a 100-percent joint and survivor benefit using the actuarial assumptions that apply to converting between annuities and lump sums under defined benefit plans. For a taxpayer who is older than age 62, the accumulated account balance would be converted to an annuity payable in the same form, where actuarial equivalence is determined by treating the individual as if he or she was still 62. In either case, the maximum permitted accumulation would continue to be adjusted for cost of living increases. Plan sponsors of defined benefit plans would generally report the amount of the accrued benefit and the accrual for the year, payable in the same form. Regulations would provide for simplified reporting for defined benefit plans. As one example, a sponsor of a cash balance plan would be permitted to treat a participant's hypothetical account balance under the plan as an accumulated account balance under a defined contribution plan for purposes of reporting under this provision. It is anticipated that other simplifications would be considered in order to ease administration.

If a taxpayer reached the maximum permitted accumulation, no further contributions or accruals would be permitted, but the taxpayer's account balance could continue to grow with investment earnings and gains. If a taxpayer's investment return for a year was less than the rate of return built into the actuarial equivalence calculation (so that the updated calculation of the equivalent annuity is less than the maximum annuity for a tax-qualified defined benefit plan), there would be room to make additional contributions. In addition, when the maximum defined benefit level increases as a result of the cost-of-living adjustment, the maximum permitted accumulation will automatically increase as well. This also could allow a resumption of contributions for a taxpayer who previously was subject to a suspension of contributions by reason of the overall limitation.

If a taxpayer received a contribution or an accrual that would result in an accumulation in excess of the maximum permitted amount, the excess would be treated in a manner similar to the treatment of an excess deferral under current law. Thus, the taxpayer would have to include the amount of the resulting excess accumulation in current income and would be allowed a grace period during which the taxpayer could withdraw the excess from the account or plan in order to comply with the limit. If the taxpayer did not withdraw the excess contribution (or excess accrual), then the excess amounts and attributable earnings would be subject to income tax when distributed, without any adjustment for basis (and without regard to whether the distribution is made from a Roth IRA or a designated Roth account within a plan).

The proposal would be effective with respect to contributions and accruals for taxable years beginning after December 31, 2014.

SIMPLIFY MINIMUM REQUIRED DISTRIBUTION (MRD) RULES

Current Law

The MRD rules generally require participants in tax-favored retirement plans, including qualified plans under section 401(a), section 401(k) cash or deferred arrangements, section 403(a) annuity plans, section 403(b) programs for public schools and charitable organizations, eligible deferred compensation plans under section 457(b), Simplified Employee Pensions (SEPs), and SIMPLE plans, as well as owners of individual retirement accounts and annuities (IRAs), to begin receiving distributions shortly after attaining age 70½. The rules also generally require that these retirement assets be distributed to the plan participant or IRA owner (or their spouses or other beneficiaries), in accordance with regulations, over their life or a period based on their life expectancy (or the joint lives or life expectancies of the participant/owner and beneficiary).[1] The MRD rules apply not only to distributions during the lifetime of the participant/owner but also to distributions from a plan or IRA after the participant/owner's death.

While designated Roth accounts held in employer-sponsored plans are subject to the MRD rules during the life of the designated Roth account holder, Roth IRAs are not subject to these MRD rules during the life of the Roth IRA holder. The MRD rules do apply, however, to both Roth IRAs and designated Roth accounts after the death of the holder.

If a participant or account owner fails to take, in part or in full, the minimum required distribution for a year by the applicable deadline, the amount not withdrawn is subject to a 50-percent excise tax.

In addition, taxpayers age 70½ and older are prohibited from contributing to traditional IRAs (beginning with the year they turn 70½).

Reasons for Change

The MRD rules are designed largely to prevent taxpayers from using for other purposes amounts that were accorded tax-favored treatment in order to provide financial security for the taxpayers during retirement. In particular, they are designed to prevent taxpayers from leaving these amounts to accumulate in tax-exempt arrangements for the benefit of the taxpayers' heirs. Under current law, however, the MRD rules also apply to millions of senior citizens who do not have large tax-favored retirement benefits to fall back on during retirement. The rules require these individuals to calculate the annual amount of their minimum required distributions, subject to the 50-percent excise tax for failure to withdraw a sufficient amount, even though they are highly unlikely to try to defer withdrawal and taxation of these benefits for estate planning purposes. Exempting those with modest balances from the rules would simplify tax compliance for millions of senior citizens without compromising important policy objectives. In addition, the

[1] Participants in tax-favored retirement plans (excluding IRAs) other than owners of at least five percent of the business sponsoring the retirement plan may wait to begin distributions until the year of retirement, if that year is later than the year in which the participant reaches age 70½ .

proposal permits these individuals greater flexibility in determining when and how rapidly to draw down their limited retirement savings.

While no tax is due on distributions from Roth accounts, Roth account-holders, like savers using traditional retirement accounts, continue to benefit from the accumulation of tax-free earnings as long as the funds are not withdrawn. Therefore it is reasonable to apply the same MRD and contribution rules to Roth IRAs, to support the purpose of the accounts in providing resources for retirement. In addition, because Roth accounts in employee plans are subject to the MRD rules during the life of designated Roth account holders, but Roth IRAs are not, individuals have a tax incentive to save outside of employer-sponsored plans (or to roll over amounts saved in employer-sponsored plans into Roth IRAs). However, setting aside these tax considerations, individuals may not be better off saving in IRAs than in employer-sponsored plans. For example, employer plans may provide greater fiduciary protections, lower fees and expenses, better investment options and protection from creditors and legal judgments.

Proposal

Eliminate MRD requirements for balances of $100,000 or less. The proposal would exempt an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed $100,000 (indexed for inflation) on a measurement date. However, benefits under qualified defined benefit pension plans that have already begun to be paid in life annuity form (including any form of life annuity, such as a joint and survivor annuity, a single life annuity, or a life annuity with a term certain) would be excluded in determining the dollar amount of the accumulations. The MRD requirements would phase in ratably for individuals with aggregate retirement benefits between $100,000 and $110,000. The initial measurement date for the dollar threshold would be the beginning of the calendar year in which the individual reaches age 70½ or, if earlier, in which the individual dies, with additional measurement dates occurring only at the beginning of the calendar year immediately following any calendar year in which the individual's IRAs or plans receive contributions, rollovers, or transfers of amounts that were not previously taken into account.

The proposal would be effective for taxpayers attaining age 70½ on or after December 31, 2014 and for taxpayers who die on or after December 31, 2014 before attaining age 70½.

Harmonize MRD requirements for tax-favored retirement accounts. The proposal would harmonize the application of the MRD requirements for holders of designated Roth accounts and of Roth IRAs by generally treating Roth IRAs in the same manner as all other tax-favored retirement accounts, i.e., requiring distributions to begin shortly after age 70½, without regard to whether amounts are held in designated Roth accounts or in Roth IRAs. In addition, individuals would not be permitted to make additional contributions to Roth IRAs after they reach age 70½.

The proposal would be effective for individuals attaining age 70½ after December 31, 2014.

ALLOW ALL INHERITED PLAN AND INDIVIDUAL RETIREMENT ACCOUNT OR ANNUITY (IRA) BALANCES TO BE ROLLED OVER WITHIN 60 DAYS

Current Law

Generally, assets can be moved from a tax-favored employer retirement plan or from an IRA into an IRA or into an eligible retirement plan without adverse tax consequences. This movement of assets can generally be accomplished through a direct rollover of a distribution, a 60-day rollover, or a direct trustee-to-trustee transfer that is not a distribution. However, not all of these methods are available with respect to assets of a plan or IRA account inherited by a non-spouse beneficiary.

In particular, when a participant in a tax-favored employer retirement plan dies before all assets in the plan have been distributed, a beneficiary who is a surviving spouse may roll over the assets, by direct rollover or 60-day rollover, into an IRA that is treated either as a spousal inherited IRA or as the surviving spouse's own IRA. A beneficiary who is not a surviving spouse, on the other hand, may roll over the assets into an IRA that is a non-spousal inherited IRA only by means of a direct rollover; a 60-day rollover is not available to a surviving non-spouse beneficiary.

Similarly, when the owner of an IRA dies before all assets in the IRA have been distributed, a surviving spouse beneficiary may elect to treat the assets as his or her own IRA or as a spousal inherited IRA. In addition, a surviving spouse beneficiary may roll over the assets into an IRA that is treated either as the surviving spouse's own IRA or as a spousal inherited IRA. A surviving non-spouse beneficiary, on the other hand, may treat the assets as a non-spousal inherited IRA, and may move the assets to another non-spousal inherited IRA only by means of a direct trustee-to-trustee transfer; rollovers from the deceased owner's IRA to another IRA are not available for a surviving non-spouse beneficiary.

Reasons for Change

The rules that a surviving non-spouse beneficiary under a tax-favored employer retirement plan may roll over assets to an IRA only by means of a direct rollover and that a surviving non-spouse beneficiary under an IRA may move assets to a non-spousal inherited IRA only by means of a direct trustee-to-trustee transfer create traps for the unwary. These differences in rollover eligibility between surviving non-spouse beneficiaries and surviving spouse beneficiaries (and living participants) serve little purpose and generate confusion among plan and IRA administrators and beneficiaries. For example, IRA administrators often treat all transfers (whether or not an IRA account is a non-spousal inherited IRA) as rollovers, thereby causing confusion for individuals and the Internal Revenue Service. Similarly non-spouse beneficiaries may attempt to move assets to an inherited IRA by means of a 60-day rollover.

Proposal

The proposal would expand the options that are available to a surviving non-spouse beneficiary under a tax-favored employer retirement plan or IRA for moving inherited plan or IRA assets to a non-spousal inherited IRA by allowing 60-day rollovers of such assets. This treatment would be available only if the beneficiary informs the new IRA provider that the IRA is being established as an inherited IRA, so that the IRA provider can title the IRA accordingly.

The proposal would be effective for distributions made after December 31, 2014.