Tax law changes: What happens in 2024 and beyond?

2/16/2024

Some provisions of the SECURE 2.0 Act of 2022 took effect beginning on January 1, 2024. Learn more about these changes to see if they apply to you.

Editor's note: This is an updated version of the original article.

The SECURE 2.0 Act, signed into law at the end of 2022, included new provisions that took effect on January 1, 2024, and others that will be rolled out in 2025. These provisions may impact how you use 529 plan savings not spent on qualified education expenses and whether you need to take required minimum distributions (RMDs) from qualified employer sponsored retirement plan (QRP) Designated Roth accounts.

Here are some key changes that may affect you:

1. 529 plans

Previously, contributing too much to a 529 plan was a concern because distributions from the plans that aren't used for qualified education expenses can be subject to income taxes and a 10% additional tax.

Thanks to the SECURE 2.0 Act, beneficiaries of long-term qualified tuition programs, otherwise known as 529 plans, may be eligible to have a direct rollover contribution made on their behalf from any 529 account in their name to their Roth IRA up to the maximum annual contribution limit if they have excess funds. This amount is aggregated with any other annual IRA contributions, and the Roth IRA contribution rules regarding earned income apply. However, modified adjusted gross income (MAGI) limits for this 529 rollover contribution do not apply. Please be aware the 529 plan must be in place for at least 15 years and only earnings and contributions that were made more than five years before the distribution are eligible to be included in the rollover contribution. Additionally, the amount rolled over cannot exceed the lifetime maximum of $35,000. The new law means the 529 beneficiary may potentially be able to use their tax-advantaged funds to jump-start their retirement nest egg.

There are complex rules surrounding this opportunity; your tax advisor can help you navigate them.

Please consider the investment objectives, risks, charges, and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest.

2. Designated Roth account RMDs

As of January 1, 2024, you will no longer have to take RMDs from a QRP designated Roth account. The law already stated that Roth IRA owners do not have RMDs. You still may want to determine what you want to do with your QRP savings.

You generally have four options for your QRP distribution:

- Roll over your assets into an IRA
- Leave your assets in your former employer's QRP, if allowed by the plan
- Move your assets directly to your new employer's QRP, if allowed by the plan
- Take your money out and pay the associated taxes

Each of these options has advantages and disadvantages, and the one that is best depends on your individual circumstances. You should consider features such as investment choices, fees and expenses, and services offered. Your Wells Fargo Advisors financial advisor can help educate you regarding your choices so you can decide which one makes the most sense for your specific situation. Before you make a decision, speak with your current retirement plan administrator and tax professional before taking any action.

Estate tax and gift tax exemptions — potential changes in 2026

Outside of the SECURE 2.0 Act, another potential upcoming change on which to keep a close watch is the sunsetting of current estate tax and gift tax exemptions on December 31, 2025, which may revert to pre-2017 levels in 2026 if Congress doesn't act. Be sure to discuss these exemptions with your estate planning and financial advisors to determine whether you want to make changes to your gifting strategies where appropriate.

Whether and how any of these tax changes may impact you will depend on your individual situation. There is no one-size-fits-all method to tax and wealth transfer planning. But the uncertainty surrounding tax laws in today's political environment is a good reminder to add these changes to topics you would like to discuss with your advisors.

Investment and Insurance Products are:

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**