# The Tax Change in This Senate Bill Could Affect Your Retirement

The Senate will take up work to overhaul the nation's retirement system when lawmakers return from the August recess, and one of the potential changes could negatively affect some retirement accounts.

The Senate will renew work on the Retirement Enhancement and Savings Act (RESA), S. 972, which contains a number of provisions to encourage saving for retirement. It also eliminates a harmful provision for military families who, due to the 2017 tax overhaul, became subject to what's known as the "Kiddie Tax." The Gold Star Family Tax Relief Act, H.R. 1944 overwhelmingly passed the House.

While RESA would address this issue, it also would change the law regulating withdrawals from certain types of individual retirement accounts (IRAs). Under current law, the owner of an IRA must make required minimum distributions (RMD) by April 1 of the year after turning 70½. An individual's RMD is calculated based on the account balance and the owner's life expectancy.

Distributions from IRAs are treated as earned income.

Non-spousal heirs must take RMDs based on their life expectancy. The younger the beneficiary, the lower the RMD, with a longer time window to take distributions. For some investors, designating the youngest member of their family as the beneficiary of an IRA is a way to stretch out the account's life while the fund continues to grow, tax-deferred.

A RESA provision would require inherited accounts balances over $450,000 to be withdrawn within five years of the original account owner's death. Surviving spouses and minor children are excluded from the requirement.

The proposed changes would go into effect immediately, which could upend the estate plans of many people. As the military transitions from the legacy to Blended Retirement System, even more servicemembers may be affected by this rule.

The House passed its version of the legislation in May. That version gives beneficiaries up to 10 years to liquidate the account. Similar to the Senate bill, surviving spouses and minor children are excluded from the requirement.  The difference between time windows to liquidate an IRA will require resolution in conference committee.

Tax rules are complex; talk to your financial advisors to see if this particular provision could affect you.