



## NATIONAL CONFERENCE OF STATE LEGISLATURES

### **FY 2020 Budget Appropriations Analysis of Tax Provisions**

Congress enacted legislation before the holidays that provides \$1.4 trillion to fund the federal government through FY 2020. All regular individual agency funding bills were combined into two larger packages, which contained a slew of tax provisions that extended or renewed some expiring tax breaks, created new tax incentives, and repealed some taxes altogether. The deal also included some of the most significant changes to the retirement industry since 2006.

Following is an analysis of select tax provisions of interest:

#### **Tax Extenders**

The measure temporarily renews more than 30 expired or expiring tax provisions for individuals through 2020 including:

- The exclusion of discharged mortgage debt from gross income,
- The treatment of mortgage insurance premiums as mortgage interest for purposes of mortgage interest deduction,
- An “above the line” deduction for as much as \$4,000 of qualified tuition and related expenses, and
- Reduces the floor for medical expense deductions and allows for the deduction of unreimbursed medical expenses greater than 7.5% of adjusted gross income instead of 10%.

The funding package also contains a variety of tax extenders for targeted commercial areas including:

- Energy
  - \$1 per gallon credit for biodiesel and biodiesel mixtures, as well as a 10 cent per gallon credit for small agri-biodiesel producers for 2018 through 2022,
  - \$1.01 per gallon credit to produce second-generation biofuels, which are derived from agricultural residue or waste,
  - 10% credit for the cost of homeowners’ energy-efficient property improvements or purchases, with certain limits,
  - \$4,000 credit or more based on weight and fuel economy for fuel cell motor vehicles,
  - Credit for 10% or a maximum of \$2,500 of the cost of electric scooters and motorcycles, and
  - Credit for as much as \$2,000 for producers of new energy efficient homes.
- Health

- The measure permanently repeals three taxes imposed under the Affordable Care Act: the “Cadillac” tax on high-cost employer health plans; a 2.3% tax on medical devices; and an annual fee imposed on health insurance providers.
- Labor and Economic Development
  - Extend the designation of certain areas as “empowerment zones,” which provides area businesses with tax credits for 2018 through 2020,
  - New Markets Tax Credit is extended through 2020 with a limit of \$5 billion,
  - Credit for employers that provide certain paid family leave established under the 2017 tax reform law is extended through 2020,
  - The Work Opportunity Tax Credit is extended through 2020, and
  - Extends through 2020, of number of tax breaks for beer, wine, and spirits established for two years by the 2017 tax reform laws.

### **Disaster Tax Relief**

The funding measure includes several forms of tax relief to individuals and businesses impacted by major disasters declared from Jan. 1, 2018 to Feb. 20, 2020. The following are some key provisions:

- Individuals are permitted to withdraw or borrow up to \$100,000 from retirement accounts without penalty; repay loans that were already outstanding over an extra year; recontribute retirement funds withdrawn for homes in disaster areas if construction ultimately didn’t occur,
- Increases eligibility for the earned income tax credit and refundable portion of the child tax credit for those in areas declared as disasters,
- Increases the limit on the charitable deduction for donations to disaster relief,
- Provides an employee retention credit to businesses affected by the disasters,
- Allows taxpayers to deduct more uncompensated casualty losses related to the disasters, and
- Provides an automatic extension to tax filing and certain retirement plan deadlines.

### **Retirement**

The final package ultimately included many key provisions from the “Setting Every Community Up for Retirement Enhancement Act” or the “SECURE Act,” which the House overwhelmingly passed in spring 2018 but was blocked in the Senate. The adopted items are the most significant changes to retirement plans since 2006.

The measure’s retirement plan provisions include:

- Requiring individuals to begin taking distributions from their retirement accounts generally after they turn 72, instead of 70 ½, while eliminating the prohibition on traditional individual retirement account (IRA) contributions once owners turn 70 ½.,
- Permitting taxpayers to withdraw as much as \$5,000 from their retirement accounts in the year following the birth or adoption of a child without incurring a 10% early withdrawal tax.
- Requiring employers to include long-term part-time workers in 401(K) plans. Currently employers can exclude employees who work less than 1,000 hours per year,
- Creates a multi-employer option for two or more companies that aren’t in the same industry to offer defined contribution (D.C.) plans or IRAs to their employees,
- Increases a tax credit for small employer pension plan startup costs and provides a credit for small employer plans that adopt automatic enrollment,
- Allows 401(K) plans that automatically enroll employees to escalate elective contributions to as much as 15% of an employee’s salary, instead of 10%, after the first year,

- Allows a 529 education savings plans to be used for apprenticeship program expenses, and
- Corrects a provision—and allows for retroactive applicability—from the 2017 tax reform law that inadvertently causes military survivor benefits and other unearned income received by minors to be taxed at rates as high as 37%.

### **Miners' Benefits**

The funding measure included a provision to shore up the pensions of coal miners by accessing funds from an abandoned coal mine cleanup fund to guarantee retirement benefits, as well as preserve the health insurance of retirees whose former employers had gone bankrupt. Specifically, the package:

- Authorizes the Treasury Department to transfer funds to the United Mine Workers of America 1974 pension plan,
- Authorizes transfers for health plans that would have been forced to reduce benefits as a result of bankruptcy, and
- Reduces the minimum age for certain allowable in-service distributions; pension plans could retain their status if they provide distributions to active employees once they turn 59 ½, instead of 62.