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The Further Consolidated Appropriations Act, 2020, enacted December 20, 2019, includes a number of tax provisions designed to encourage more people to save for retirement. It also includes a number of other tax changes including the retroactive renewal of some tax benefits that had expired at the end of 2017.

New law helps people save for retirement; other retroactive changes impact many taxpayers federal income tax return. They may also qualify to claim them for tax-year 2018 by filing an amended return. Some details are available now in the instructions to the 2019 Form 1040.

Publication 17, Your Federal Income Tax, features an in-depth look at on tax changes for 2019 including recent legislative changes and covers the general rules for filing a federal income tax return. It supplements the information contained in the tax form instruction booklet. This 277-page guide – available online as a PDF, HTML or eBook – also provides thousands of interactive links to help taxpayers quickly get answers to their questions.

Here is a quick rundown of key provisions in the new law.

Contributing to a traditional IRA

Many older taxpayers can now choose to contribute some or all of their compensation to a traditional individual retirement arrangement (IRA). Starting in 2020, the new law eliminated the long-standing 70½ age limit for making contributions to traditional IRAs. There is no age limit for contributions to a Roth IRA.

As a result, people over age 70½ who are still working or running a business can now choose to contribute to a traditional IRA beginning in 2020. The 70½ age limit still applies to those now contributing to a traditional IRA for tax year 2019 before the April 15, 2020, filing deadline.

Distributions can start later

People with traditional IRAs, as well as 401(k) plans and other workplace retirement plans, may be able to wait until they turn age 72 before taking required minimum distributions (RMDs) from their IRAs and plans.

For those who turned age 70½ prior to January 1, 2020, their RMDs must begin by April 1 of the year after they turned age 70½. For example, for someone who turned 70½ in 2019, they must take their first RMD (for 2019) by April 1, 2020, and their second RMD (for 2020) by Dec. 31, 2020.

For those who were age 70½ or younger on Jan. 1, 2020, their first RMD is not due until April 1 of the year after they turn age 72. For example, for those who turn 72 on July 1, 2021, they must take their first RMD (for 2021) by April 1, 2022, and their second RMD (for 2022) by December 31, 2022.

Birth or adoption of a child

Beginning in 2020, an IRA owner or a participant in a workplace defined contribution plan, such as a 401(k) or 403(b) plan, can withdraw up to $5,000 for the birth or adoption of a child without incurring the usual 10% additional tax on early distributions. The distribution must be made within one year after the child is born or the adoption is finalized and cannot be from a defined benefit plan. Any time after receiving the distribution, the IRA owner or plan participant may generally recontribute any portion of the distribution as a rollover contribution to an eligible retirement plan, including an IRA.

New rules for beneficiaries

Fewer beneficiaries of IRAs and workplace retirement plans such as 401(k) and 403(b) plans will qualify to receive distributions over their lifetime. Many will need to withdraw all assets within 10 years after the death of the IRA owner or retirement plan participant. Exceptions to the 10-year rule apply to surviving spouses, minor children, people who are disabled or chronically ill, and those who are not more than 10 years younger than the decedent.

The old distribution rules continue to apply where the IRA owner or plan participant died before 2020, except a special rule applies to distributions after the death of a beneficiary who dies after 2019.

529 Changes

More expenses now qualify for tax-free and penalty-free withdrawals from a qualified tuition program, also known as a 529 plan.

Amounts can be withdrawn to pay principal or interest on a designated beneficiary's or their sibling's student loan. The amount of distributions for loan repayments of any individual is limited to $10,000 lifetime. Interest paid with these funds does not qualify for the student loan interest deduction.

In addition, a 529 plan can now be used to pay qualifying expenses for a designated beneficiary to participate in an apprenticeship program that is registered and certified by the U.S. Department of Labor. Qualifying expenses are expenses for required fees, books, supplies and equipment.

Because these changes are retroactive to 2019, any distributions during 2019 that meet these guidelines also qualify for tax-free and penalty-free treatment.

Tax benefits extended through 2020

Many tax benefits that expired at the end of 2017 have now been extended through 2020. As a result, eligible taxpayers can claim them on the 2019 return they are filing this tax season. In addition, eligible taxpayers can claim them on an amended return (Form 1040X) for 2018. These include the tuition and fees deduction, the deduction for mortgage insurance premiums

for eligible homeowners, the exclusion for debt cancelled on a principal residence and the nonbusiness energy credit for homeowners who install energy-efficient windows, doors, insulation and furnaces.

Other changes

The new law includes a number of other changes that affect both individuals and businesses. They include modification of the so-called "kiddie tax," changes to various disaster tax relief provisions and an extension of business tax benefits, such as the employer credit for paid family and medical leave and the Work Opportunity Tax credit for employers who hire categories of workers with employment barriers. Further details will be available soon on IRS.gov.

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