

September 20, 2021

## Large IRAs and High-Income Retirement Savers Targeted by Amendment to Budget Reconciliation Bill

Last week, Richard Neal (D-Mass), chairman of the House Committee on Ways and Means, unveiled an [amendment](#) to help fund the \$3.5 trillion budget reconciliation legislation that is currently under consideration in Congress. The Neal amendment would make dramatic changes to the rules governing retirement plans for certain high-income taxpayers by imposing new asset limitations and prohibitions. It would also require distributions and IRA contribution limitations for certain individuals with retirement savings over \$10 million, require distributions of Roth balances in excess of \$20 million and end the practice of so-called “back-door” Roth conversions. These changes aim to effectively prohibit mega IRAs, which were the subject of extensive press reports earlier this year following ProPublica’s revelation of multiple large IRAs, including Peter Thiel’s \$5 billion mega-Roth IRA.

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Below is a summary of some of the key retirement plan rule modifications found in Chairman Neal’s amendment.

- **Mandatory Distributions for High-Income Taxpayers with Large (i.e., \$10M+) Retirement Account Balances** – If an individual’s combined traditional IRA, Roth IRA, and defined contribution retirement account balances generally exceed \$10 million (as adjusted for inflation) at the end of a taxable year, that individual would be required to reduce the aggregate account sizes by taking a distribution in the following year. The minimum distribution generally is 50% of the amount by which the individual’s prior year aggregate traditional IRA, Roth IRA and defined contribution account balance exceeds the \$10 million limit.

In addition, to the extent that the combined balances exceed \$20 million (as adjusted for inflation), a taxpayer would be required to take a distribution of the excess from Roth IRAs and Roth designated accounts in defined contribution plans up to the lesser of (1) the amount needed to bring the total balance in all accounts down to \$20 million or (2) the aggregate balance in the Roth IRAs and designated Roth accounts in defined contribution plans. Once the individual distributes the amount of any excess required under this 100% distribution rule, then the individual is allowed to determine the accounts from which to take distributions in order to satisfy the 50% rule above.

This minimum required distribution would apply to single taxpayers (or taxpayers married filing separately) with adjusted taxable income amounts over \$400,000, married taxpayers filing jointly with adjusted taxable income over \$450,000, and heads of households with adjusted taxable income over \$425,000.

- **Prohibition on Rollovers to Roth IRAs and Certain Roth Conversions** – The amendment also proposes to eliminate Roth conversions for amounts held in traditional IRAs as well as in 401(k) plans, 403(b) plans, and governmental 457(b) plans for single taxpayers (or taxpayers married filing separately) with taxable income over \$400,000, married taxpayers filing jointly with taxable income over \$450,000, and heads of households with taxable income over \$425,000 (all indexed for inflation). This provision appears to target the use of “back-door” Roth IRA strategies employed by high-net-worth individuals, where such individual makes a nondeductible (i.e., after-tax) contribution to a traditional IRA and then shortly thereafter converts the nondeductible contribution from the traditional IRA to a Roth IRA (as a way to avoid the income limitations on Roth IRA contributions). This provision applies to distributions, transfers, and contributions made in taxable years beginning after December 31, 2031. Amounts distributed from a Roth IRA or from a designated Roth account may be rolled over to a Roth IRA.

Separately, for all taxpayers (regardless of income level), the proposal prohibits amounts held in non-Roth

accounts in an employer-sponsored retirement plan or in a traditional IRA from being converted to a Roth IRA or a designated Roth account if any portion of the distribution that is being converted consists of after-tax contributions. This latter provision would apply to any distributions, transfers and contributions made after December 31, 2021.

- Prohibition of Certain Private Investments by IRAs** – The Neal amendment also seeks to prohibit an IRA from holding any security if the issuer of the security requires the IRA owner to satisfy certain minimum level of assets or income, or have completed a minimum level of education or obtained a specific license or credential. For example, the bill prohibits IRAs from holding investments such as private funds that are offered to accredited investors or qualified purchasers because those investments are securities that have not been registered under federal securities laws. If an IRA holds an investment that is prohibited under this provision, the account would lose its IRA status as of the first day of the taxable year, and it would be treated as having distributed an amount equal to the fair market value of all of its assets as of the first day of the taxable year (potentially subjecting the holder to an excise tax). The restriction would generally take effect for tax years beginning after December 31, 2021, but the proposal includes a two-year transition period for IRAs already holding such investments. The proposal does not provide any additional transition relief for private investments that cannot be sold or transferred during that transition period, or permit the IRA to sell or transfer prohibited private investments to the IRA owner.
- Contribution Limit for Retirement Account Balances of \$10 Million or More** – Under current law, taxpayers may make contributions to IRAs irrespective of their retirement account balances. The amendment would prohibit a taxpayer from making annual contributions to a Roth or traditional IRA for a taxable year if the total value of all of his or her IRA and defined contribution retirement accounts generally exceed \$10 million as of the end of the prior taxable year. The limit on contributions would only apply to taxpayers whose taxable income meets the thresholds described above (e.g., \$450,000 for a joint return).
- New Reporting Mandate for Aggregate Account Balances Exceeding \$2.5 Million** – The amendment also proposes a new annual reporting requirement for employer defined contribution plans, where a participant has an aggregate account balance in excess of \$2.5 million. The disclosure would be made to both the IRS and the plan participant whose balance is being reported.
- Extension of the Statute of Limitations with Respect to IRA Noncompliance** – The proposal extends the statute of limitations in certain cases relating to IRAs and prohibited transactions. For noncompliance pertaining to valuation-related misreporting and prohibited transactions, the amendment proposes to extend the statute of limitations from three years to six years. The provision would apply to taxes to which the current three-year period ends after December 31, 2021.

As drafted, nearly all of the proposed modifications of the retirement plan rules contained in Chairman Neal's amendment would take effect in 2022 or 2023, and according to the [Joint Committee on Taxation](#), they would generate approximately \$4.3 billion in revenue over the next decade. It remains unclear how much the provisions changed in markup in the House Ways and Means Committee, which approved the amendment with a mostly party-line vote of 24-19. Furthermore, the Senate Finance Committee may not be receptive to these proposals when it has to draft its own version of the reconciliation bill. Nonetheless, if some form of these modifications makes its way into the ultimate legislation, that will have significant repercussions for asset managers and wealth management firms that specifically market their products as prospective IRA investments.

We are continuing to monitor this legislation, and we will send out an updated Alert to the extent these proposals survive the legislative process. If you have any questions, please feel free to reach out to any of the attorneys listed above.