

Bill to Limit Large Retirement Accounts

Quick-Take: Once again there is a Bill filed in Congress to limit the size of traditional and Roth retirement accounts for the super-wealthy. Probably nothing will come of this Bill, but this new Bill suggests that Congress continues to look closely at massive amounts held by high-net-worth individuals in tax-advantaged accounts.

Background: Senator Ron Wyden has introduced a Bill in the Senate to limit the amount that can be held in a retirement account. It is called the Retirement Fairness for Working Americans Act. [S.5040; H.R. 9813.] This Bill is similar to the one that was offered a couple of years ago during President Biden's term in office to limit the amount that could be held in a Roth IRA, with mandatory distributions of amounts above a specified ceiling dollar amount and forced distributions from Mega-IRAs. It is highly doubtful that this Bill will see the light of day with the current Congress controlled by Republicans, but if there is, in fact, a Blue Wave this November, this Bill might be reintroduced early in 2027 with a slightly higher prospect of being adopted. [Obviously, I am ignoring the probable Presidential veto without the use of an autopen.] Key provisions of the Bill follow.

Contribution and Balance Limitations: If an individual's aggregate retirement account balance, taken from all retirement accounts, is more than \$10 million, then no contributions can be made to any of their retirement accounts. An inherited retirement account, or a retirement account that is received as part of a divorce or legal separation award, will not be treated as a 'contribution.'

The term 'applicable taxpayer' is defined as one whose modified adjusted gross income exceeds \$225,000 for a married individual who files separately, \$425,000 for a head of household, or \$450,000 for an individual who is married filing jointly, or \$400,000 'in any other case.' Starting in 2027 these MAGI amount would be adjusted for cost of living in multiples of \$1,000 per year.

Balance Limitation and RMD: A traditional IRA if so, aggregated with the owner's other retirement accounts exceeds \$10 million, then 50% of that

excess amount must be distributed (above the \$10 million threshold amount). This is a RMD even though the account owner is not yet 73 years old.

Excess Contributions Penalty: If excess contributions are made to a retirement account, there will be an enhanced penalty above the current ‘penalty’ that is assessed for excess contributions under IRC 4973 using a convoluted, i.e., multi-paragraph, aka word-salad, formula.

RMD For Roth IRAs: For high-income taxpayers with large aggregate retirement account balances, required minimum distributions (RMDs) will be increased. An RMDs will be imposed on the sum of an applicable Roth IRA excess balance amount of 50% of the excess. Accordingly, a Roth IRA that holds more than \$20 million will be forced into mandatory distributions of the excess amount over the threshold amount, even though there are no RMDs associated with owning a Roth IRA.

Increased Tax Withholding: In some situations, the retirement account holder cannot opt out of income tax withholding for these new RMD rules, and in some cases the withheld tax amount will increase from 10% to 37%.

Conclusion: As noted, it is highly unlikely that this Bill will get the attention of a Congress that is preoccupied with doing nothing, other than conducting investigations to demean retired government officials, and then waiting until the last minute to scramble to adopt a budget to avert yet another government shutdown. Still, it is clear from this Bill that ‘fat’ IRAs and other retirement accounts will continue to be targeted as a source to deal with diminishing tax revenues.

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