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White House Releases President Obama's 2017 Fiscal Year Budget Proposal

On February 9, 2016, the White House released the President's proposal for the fiscal year 2017 budget. While several items have been in former proposals, there are new items to call attention to.

What to expect

It is important to remember that the budget is not a legislative proposal, but a series of changes the White House supports. Upon its release, the Republican-controlled Congress quickly rejected the President's budget. That being said, some of the items in the proposal have bi-partisan support and may resurface in other legislative proposals. In order for any of these proposals to move forward, we would need to see legislative initiatives that incorporate the changes. While there is some bi-partisan interest in revenue raisers, such as limiting non-spouse beneficiaries to a five year payout and expanded open Multiple Employer Plans (MEPs), there does not appear to be a strong appetite for tax reform in this election year. Some of these ideas will likely resurface in the next Presidential Administration.

New items in the budget proposal:

- Amend ERISA to permit unaffiliated employers to adopt an "open" MEP (Multiple Employer Plan) that would be treated as a single plan for purposes of ERISA, provided that certain conditions are met.
- Give the Pension Benefit Guaranty Corporation (PBGC) the authority to adjust premiums for multi-employer plans which would raise $15 billion in additional premiums over the next 10 years.
- Provide the Department of Labor (DOL) with $100 million in new funding to allow states and nonprofits to design, implement, and evaluate new approaches to expand retirement and other employer-provided benefit coverage.
- Increase DOL's budget by 4.9%, with a 64% increase for the Employee Benefits Security Administration, and the Internal Revenue Service's budget by 12%.

Proposals impacting retirement and health savings:

- Overall cap on accrual of retirement savings limited to approximately $3.4M in a lifetime (equivalent to an annual benefit not to exceed $210,000). No further contributions or accruals permitted after the cap is reached.
- Non-spouse beneficiary inherited IRAs and employer plans to be distributed in full, by the end of the fifth year following the death of the account owner/participant.
- Roth conversions limited to pre-tax assets. This would close the "back door" Roth contributions that are made after tax to traditional Individual Retirement Accounts (IRAs) and then converted to Roth by individuals who are income ineligible for annual Roth IRA contributions.
- Repeal the corporate tax deduction for dividends paid on employer stock held in an Employee Stock Option Plan (ESOP) sponsored by a publicly traded corporation.
- Repeal the exclusion of Net Unrealized Appreciation (NUA) on employer securities distributed as part of a lump sum distribution from tax-qualified retirement plans.
- Require employers who have been in business for at least two years and have more than 10 employees to offer automatic IRAs on a payroll-deduction basis, unless the employer sponsors a qualified retirement plan, SEP, or SIMPLE plan for employees.

- Expanded tax credits for small employers:
    - Employers with 100 or fewer employees who establish an auto IRA could claim a non-refundable employer tax credit for the employer's expenses associated with the arrangement of up to $1,000 per year for three years (with an additional non-refundable tax credit of $25 per enrolled employee up to $250 for six years)
    - For small employers who set up a qualified retirement plan, SEP, or SIMPLE plan, the current tax credit for start-up costs would be tripled to $1,500 per year for three years, with a possible extension to four years if certain requirements are met.
- Expand access to qualified retirement plans to long-term, part-time workers – individuals working at least 500 hours per year for at least three consecutive years would have to be permitted to defer into the employer plan and would receive one year of credit towards vesting in any employer contributions for each year they met the minimum 500 hour requirement.
- Expand penalty-free withdrawals to long-term unemployed individuals from IRAs and from employer plans without incurring the additional 10% premature income tax penalty.
- Exempt individuals with $100,000 or less in total retirement assets from Required Minimum Distributions (RMDs) at age 70 ½.
- Require RMDs from Roth IRAs at 70 ½ the same way they are required from Roth designated accounts in employer plans at 70 ½.
- Permit non-spouse beneficiaries to roll over inherited IRA balances within 60 days (in addition to transfer or direct rollover).
- Form W-2 Reporting of Defined Contribution plan contributions, requiring employers to report the amount of any contributions to an employee's account under a defined contribution plan on the employee's Form W-2.
- Change the threshold for the Cadillac Tax's 40% levy to account for regional differences in health insurance costs. Threshold would be the greater of the current law threshold or a "gold plan average" premium that would be calculated and published for each state.