Limits on Large Retirement Account Balances

Sec. 1. Contribution Limit for Individual Retirement Plans of High-Income Taxpayers with Large Account Balances.

Under current law, taxpayers may make contributions to IRAs irrespective of how much they already have saved in such accounts. To avoid subsidizing retirement savings once account balances reach very high levels, the legislation would create new rules for taxpayers with very large IRA and defined contribution retirement plan account balances.

In general, the legislation would prohibit further contributions to a Roth or traditional IRA if the total of an individual's IRA and defined contribution retirement plan vested account balances exceeds $10 million for the prior year. The limit on contributions would only apply to single taxpayers with modified adjusted gross income ("MAGI") for the prior year over $400,000, married taxpayers filing jointly with MAGI for the prior year over $450,000 ($225,000 for married filing separately), and heads of households with MAGI for the prior year over $425,000 (all indexed for inflation). The bill expands the present-law six percent excise tax on excess contributions to include contributions limited by this legislation. The provisions of this section would be effective for tax years beginning after December 31, 2026.

Sec. 2. Increase in Minimum Required Distributions for High-Income Taxpayers with Large Retirement Account Balances.

If an individual's traditional IRA, Roth IRA and defined contribution retirement plan account balances generally exceed $10 million, a minimum distribution would be required. The minimum distribution generally would be 50 percent of the amount by which the individual's prior year aggregate traditional IRA, Roth IRA and defined contribution retirement plan account balances exceed the $10 million limit (the "50 percent distribution rule"). Similar to Section 1, the minimum distribution requirement would not apply to taxpayers below a certain MAGI level.

In addition, to the extent that the prior year combined balance amount in traditional IRAs, Roth IRAs and defined contribution plans exceeds $20 million, a minimum distribution is required equal 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 retirement plans (the "100 percent distribution rule"). This minimum distribution must be distributed first from Roth IRAs and second from Roth designated accounts in defined contribution retirement plans.

Once the individual distributes the amount of any excess required under the 100 percent distribution rule, then the individual is allowed to determine the accounts from which to distribute to satisfy the 50 percent distribution rule. The amount required to be distributed to satisfy the 50 percent distribution rule is reduced by any amount distributed under the 100 percent distribution rule.

This provision would be effective for tax and plan years beginning after December 31, 2033.