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DUMONT & BLAKE
INVESTMENT ADVISORS

731 Alexander Road, Suite 301
Princeton, New Jersey 08540

609-514-1899 800-345-3200
609-514-4222 Fax

Money In Motion

www.dumontandblake.com

What Is a Qualified Charitable Distribution (QCD)?

As you build your legacy, considering how to leverage your charitable contributions can be a fulfilling endeavor. Qualified Charitable Distributions (QCDs) can offer an opportunity to support your favorite causes and manage your retirement income. Here are some factors to consider with QCDs and how they've changed based on recent legislation, such as the SECURE Act.

What Is a Qualified Charitable Distribution (QCD)? A Qualified Charitable Distribution allows individuals aged 70½ or older to donate directly from specific retirement accounts to qualified charities without recognizing the distribution as taxable income. Such distributions can help you manage your required minimum distributions (RMDs). Additionally, the SECURE Act 2.0 changed the age of RMDs to 73.[1]

Remember, this email is for informational purposes only and is not a replacement for real-life advice. We encourage you to consult with your tax, legal, and accounting professionals before modifying your retirement income strategy.[1]

Age and Account Requirements. You must be at least 70½ years old to qualify for a QCD. The distribution can be made from an IRA. You can use SEP IRAs or SIMPLE IRAs so long as they are inactive, meaning that you've made no contributions to the account in the year the QCD is taken. However, keep in mind that 401(k)s and other non-IRA retirement vehicles do not qualify for QCDs.[1]

Once you reach age 73, you must begin taking RMDs from a traditional IRA, SEP IRA, or SIMPLE IRA in most circumstances. Withdrawals from traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal (continue on page 2)

Protection Against Uninsured Drivers

About 14 percent of all motorists, or one-in-seven drivers, do not have automobile insurance, according to the Insurance Research Council.[1]

Having the misfortune to get into an accident with an uninsured motorist may have serious financial consequences, depending upon the state in which you reside and whether it is a "no-fault" or "tort" state.

In no-fault states, the law does not assign blame for an accident. As a result, each driver is reimbursed by his or her insurance company for any damages. In a "tort" state, insurance companies pay out claims based on the percentage of fault assigned to each driver.[2]

Any accident with an uninsured driver means no insurance reimbursement payment for his or her apportioned share of the damage. This can leave you holding the financial bag.

How to Protect Against Uninsured Drivers:

- Some states require drivers to take out insurance for uninsured (and underinsured) motorists. Where not required, it may be a good idea to add that coverage to your auto policy.
- You can buy protection against uninsured (and underinsured) drivers for both bodily injury and property damage. This coverage may also be valuable in cases where an insured motorist flees the scene of an accident without trading insurance information
- The first step to protecting yourself against this potential financial risk is to contact your insurance agent to discuss your current coverage, applicable state insurance laws, and what you need to do to obtain protection against uninsured motorists.

Citations

1. III.org, 2024
2. The information in this material is not intended as legal advice. Please consult legal or insurance professionals for specific information regarding your individual situation.

What Is a Qualified Charitable Distribution (QCD)? *(continued from page 1)*

income tax penalty.

To qualify for the tax- and penalty-free withdrawal of earnings, Roth IRA distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.[1]

Limits and Adjustments. The maximum annual limit for QCDs is currently set at $100,000 for 2024, an amount that adjusts for inflation yearly. Therefore, staying updated on the annual cap is important, as it can influence your donation strategy.[1]

Financial Pros and Cons. In addition to helping you support a charity, a QCD may also offer to help you manage your tax situation. IRA withdrawals are generally taxable, but QCDs are excluded from taxable income, meaning they don't increase your adjusted gross income (AGI). For some, this may be an opportunity to consider when balancing supporting a charitable organization and managing taxes.

Additionally, QCDs may enable you to satisfy your RMD requirements. You also benefit from the fact that you might not need to itemize deductions to take advantage of a QCD, allowing you to use the standard deduction.[1]

Again, this article is for informational purposes only. Speak with your tax, legal, and accounting professionals if you have specific questions about your deductions.

Charity and RMD Considerations. QCDs are versatile in that there is no restriction on the number of charities you can support, provided they qualify under IRS guidelines. However, the donation must go directly from your IRA to the charity to be a QCD. Gifts made as QCDs can fulfill all or part of your annual RMD requirement. It's worth noting that if you donate over your RMD amount, the excess cannot be rolled over to the following year's RMD.

Final Key Details. It's prudent to confirm the status of your chosen charity through the IRS Online Search Tool or by consulting with a professional who can speak to the organization's tax status. If you withdraw and then donate the funds, it does not count as a QCD and becomes taxable.

As with most financial strategies, your state may have specific rules impacting how QCDs are treated. Check with a tax professional about state-specific regulations.

Citations

1.IRS.gov, 2024

Does Your Credit Score Affect Your Insurance Rates?

While the vast majority of insurance companies use credit-based insurance scores to help determine the price of insurance, it is banned in the states of Massachusetts, Michigan, Hawaii, and California. Some states only allow it as a factor for property insurance like auto and homeowners insurance. Other states allow it to be used with any type of insurance.[1]

Generally, an insurance company will use a credit-based insurance score as just one factor in its underwriting process. Other factors may be considered, depending on the type of insurance. For example, with auto insurance, other factors could include your zip code, the age of the driver, the make, model and age of the car, and the number of miles you drive annually.

The use of credit scores to determine insurance rates is rooted in research that has shown individuals with lower credit scores tend to file more claims.[2]

You can ask your insurance company if a credit-based insurance score was used to underwrite and rate your policy, and in which risk category you were placed.

If you want to improve your credit-based insurance score, you should consider taking the same steps you would to improve your credit rating: make timely debt payments, clear up past disputes, and keep credit card balances low.

Citations

1. Forbes, June 10, 2024
2. ValuePenguin.com, May 14, 2024

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