

Financial Focus

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Qualified Charitable Distributions: Using Your IRA to Give from the Heart



The Tax Cuts and Jobs Act roughly doubled the standard deduction (\$12,200 for single filers and \$24,400 for married taxpayers filing jointly in 2019) and indexed it for inflation through

2025. As a result, far fewer taxpayers will itemize deductions on their tax returns, and some people may be disappointed that they no longer benefit from writing off their donations.

If you are 70½ or older, you can use a qualified charitable distribution (QCD) to donate from your IRA and get a tax break, whether you itemize or not. Not coincidentally, this is the same age you must begin taking annual required minimum distributions (RMDs), which are normally taxed as ordinary income, or face a 50% penalty on the amount that should have been withdrawn.

QCDs satisfy all or part of any RMDs that you would otherwise have to take from your IRA. Better yet, QCDs are excluded from your income, so they help lower your adjusted gross income (AGI) as well.

How QCDs work

The IRA custodian must issue a check made out to a qualified public charity (not a private foundation, donor-advised fund, or supporting organization). In some cases, the IRA custodian may provide a checkbook from which you can write checks to chosen charities. Be aware that any check you write will count as a QCD for the year in which it is cashed by the charity, whereas a check from the custodian counts for the year in which it is issued.

You can take an RMD any time during the year you turn 70½, but you must wait until after you are 70½ to make a QCD. The QCD exclusion is limited to \$100,000 per year. If you're married, your spouse can also contribute up to \$100,000

from his or her IRA. You cannot deduct a QCD as a charitable contribution on your federal income tax return — that would be double-dipping.

A QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then each distribution normally carries with it a pro-rata amount of taxable and nontaxable dollars. With QCDs, the pro-rata rule is ignored, and taxable dollars are treated as distributed first.

Tax perks for givers

If you no longer itemize, you could reduce your tax bill by donating with QCDs from your IRA instead of writing checks from your standard checking account. And if you still itemize, QCDs might prove more valuable than tax deductions. That's because they can help address tax issues that might be triggered by income from RMDs.

For example, an itemized deduction reduces your taxable income by the amount of the charitable gift, but it does not reduce your adjusted gross income. This is a key distinction because the 3.8% tax on net investment income, Medicare premium costs, taxes on Social Security benefits, and some tax credits are based on AGI.

Also, charitable giving can typically be deducted only if it is less than 60% of your adjusted gross income. But with QCDs, you may be able to give more than 60% of your AGI and exclude the entire amount (up to the \$100,000 cap) from your taxable income.

Time for a rollover?

Qualified charitable distributions are available from traditional IRAs, Roth IRAs (with taxable amounts), and inactive SIMPLE or SEP IRAs, but they are not allowed from employer retirement plans such as 401(k)s and 403(b)s. Thus, you might consider rolling funds from an employer plan to an IRA if you want to take advantage of a giving strategy that involves QCDs.

Fortune Wealth Management, LLC

Sonja White, CLU®, ChFC®
President

12222 Merit Drive
Suite 1050
Dallas, TX 75251
972-716-8002 x224
800-288-6845

sonja@fortunewealthmanagement.com
www.fortunewealthmanagement.com

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The SECURE Act Offers New Opportunities for Individuals and Businesses



The SECURE Act (Setting Every Community Up for Retirement Enhancement Act) is major legislation that was passed by Congress as part of a larger spending bill and signed into law by the president in December. Here are a few provisions that may affect you. Unless otherwise noted, the new rules apply to tax or plan years starting January 1, 2020.

If you're still saving for retirement

To address increasing life expectancies, the new law repeals the prohibition on contributions to a traditional IRA by someone who has reached age 70½. Starting with 2020 contributions, the age limit has been removed, but individuals must still have earned income.

If you're not ready to take required minimum distributions

Individuals can now wait until age 72 to take required minimum distributions (RMDs) from traditional, SEP, and SIMPLE IRAs and retirement plans instead of taking them at age 70½. (Technically, RMDs must start by April 1 of the year following the year an individual reaches age 72 or, for certain employer retirement plans, the year an individual retires, if later).

If you're adding a child to your family

Workers can now take penalty-free early withdrawals of up to \$5,000 from their qualified retirement plans and IRAs to pay for expenses related to the birth or adoption of a child. (Regular income taxes still apply.)

If you're paying education expenses

Individuals with 529 college savings plans may now be able to use account funds to help pay off qualified student loans (a \$10,000 lifetime limit applies per beneficiary or sibling). Account funds may also be used for qualified higher-education expenses for registered apprenticeship programs. Distributions made after December 31, 2018, may qualify.*

If you're working part-time

Part-time workers who log at least 500 hours in three consecutive years must be allowed to participate in a company's elective deferral retirement plan. The previous requirement was 1,000 hours and one year of service. The new rule applies to plan years beginning on or after January 1, 2021.

If you're an employer offering a retirement plan

Employers that offer plans with an automatic enrollment feature may automatically increase employee contributions until they reach 15% of

pay (the previous cap was 10% of pay). Employees will have the opportunity to opt out of the increase.

Small employers may also benefit from new tax credit incentives. The tax credit that small businesses may take for starting a new retirement plan has increased. Employers may now take a credit equal to the greater of (1) \$500 or (2) the lesser of (a) \$250 times the number of non-highly compensated eligible employees or (b) \$5,000. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of \$1,000 (i.e., a \$500 maximum credit).

In addition, a new tax credit of up to \$500 is available to employers that launch a new SIMPLE IRA or 401(k) plan with automatic enrollment.

These credits are available for three years, and employers that qualify may claim both credits.

*There are generally fees and expenses associated with 529 savings plan participation. Investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free if used for qualified higher-education expenses. For withdrawals not used for qualified higher-education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% federal income tax penalty. Discuss the tax implications of a 529 savings plan with your legal and/or tax advisors; these can vary significantly from state to state. Most states offer their own 529 plans, which may provide advantages and benefits exclusively for residents and taxpayers, including financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 savings plan, consider the investment objectives, risks, charges, and expenses carefully. Obtain the official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — from your financial professional. Read these materials carefully before investing.





Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	\$64,000 - \$74,000	\$65,000 - \$75,000
Married filing jointly (MFJ)	\$103,000 - \$123,000	\$104,000 - \$124,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

Note: The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/HOH	\$122,000 - \$137,000	\$124,000 - \$139,000
MFJ	\$193,000 - \$203,000	\$196,000 - \$206,000
MFS	\$0 - \$10,000	\$0 - \$10,000

Estate and gift tax

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

Standard deduction

	2019	2020
Single	\$12,200	\$12,400
HOH	\$18,350	\$18,650
MFJ	\$24,400	\$24,800
MFS	\$12,200	\$12,400

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	\$71,700	\$72,900
MFJ	\$111,700	\$113,400
MFS	\$55,850	\$56,700
Exemption phaseout threshold		
Single/HOH	\$510,300	\$518,400
MFJ	\$1,020,600	\$1,036,800
MFS	\$510,300	\$518,400
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	\$97,400	\$98,950
All others	\$194,800	\$197,900
*Alternative minimum taxable income		



Fortune Wealth Management, LLC

Sonja White, CLU®, ChFC®
 President
 12222 Merit Drive
 Suite 1050
 Dallas, TX 75251
 972-716-8002 x224
 800-288-6845
 sonja@fortunewealthmanagement.com
 www.fortunewealthmanagement.com

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How much will health care cost?

Retirement health-care costs will vary depending on your health and longevity, but it may help to have a guideline. These are the estimated savings required for an individual or couple who turned 65 in 2019 to have a 90% chance of meeting expenses for Medicare Part B health insurance, Part D prescription drug coverage, Medigap Plan F, and out-of-pocket drug costs, assuming median prescription drug expenses.* These estimates do not include services not covered by Medicare or Medigap.



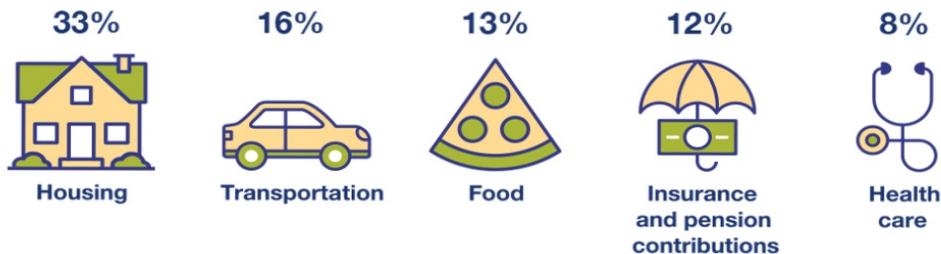
*Medigap Plan F is used for these estimates because it is the most comprehensive coverage available and simplifies the calculation. However, this plan may not be available for new beneficiaries after January 1, 2020. Current enrollees may keep Plan F, and most other plans will remain available for new enrollees.

Source: Employee Benefit Research Institute, 2019

How Consumers Spend Their Money

Each year, the Bureau of Labor Statistics reports on consumer spending patterns. According to the 2019 report, consumers spent an average of \$61,224 in 2018.*

Share of total spending for the top five categories



*Average annual expenditures per consumer unit. Consumer units include families, single persons living alone or sharing a household with others but who are financially independent, and two or more persons living together who share major expenses.

U.S. Bureau of Labor Statistics, Consumer Expenditures 2018, released September 2019

