DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

South Carolina Catastrophe Savings Account (CSA)

Whether you are in your 1st or 20th year of living in The Lowcountry, many of us keep an eye on the calendar to that ever-approaching date of June 1st. The beginning of Hurricane Season and we all know the past several years have been active.

However, not all of us know South Carolina enacted a law in 2007 to help residents pay for expenses resulting from a hurricane, flood or windstorm event. This law created the Catastrophe Savings Account (CSA) and they could be beneficial after dealing with such tragic events.

South Carolina residents who own a single-family dwelling (house, condo, townhouse, modular or mobile home) and are legal residents, for SC property tax purposes, can open and contribute to a CSA. The account must be established at any state or federally chartered bank and be used for qualified catastrophe expenses.

What are Qualified Catastrophe Expenses?
Expenses paid or incurred by a declared disaster from the Governor of SC through Executive Order specified by county. These expenses include payment of insurance deductibles and other uninsured risks of loss from hurricane, flood waters or windstorm event.

Why open a Catastrophe Savings Account?
One can set aside monies, state income tax free, to pay for these expenses. Contributions will be deductible from your SC taxable income. Interest earned will be exempt from SC income tax and should be subtracted when computing your SC taxable income. Withdrawals used for qualified catastrophe expenses are not included in SC taxable income.

Are there requirements for a Catastrophe Savings Account?
Only one account can be established, and it must be labeled as "Catastrophe Savings Account." The account must be kept separate from all other financial accounts. The account holder is responsible for maintaining all records pertaining to withdrawals and qualified catastrophe expenses. Furthermore, this account can only be an interest-bearing account; but contributions can come from any source of funds…i.e. savings accounts, IRA withdrawals, investment accounts, etc.

Are there contribution limits?
Contribution limits are based on insurance deductible.

- If your deductible is less than or equal to $1,000, you can contribute up to $2,000
- If your deductible is more than a $1,000, you can contribute the lessor of $15,000 or twice the deductible
- If you self-insure, you can contribute up to the value of your home or $250,000 whichever is less
- Contributions can be contributed in more than one year, however total contributions for all years cannot exceed your maximum contribution amount

What are the negatives to having a Catastrophe Savings Account?
Any withdrawal for any purpose other than qualified catastrophe expenses are subject to SC income tax at regular rates. Additionally, there will be a 2.5% income tax penalty in the year of the withdrawal. There are certain exceptions for withdrawals below:

- 70 years or older and has a homeowner's insurance policy
    - 2.5% penalty tax not applicable
    - Withdrawals not included as SC income tax
    - Non-qualified catastrophe expense withdrawals result in no further contributions allowed to a Catastrophe Savings Account
- 70 years or older and self-insures
    - 2.5% penalty tax not applicable
    - Withdrawal amount included in SC income tax
- Account holder no longer owns a single-family dwelling
    - 2.5% penalty tax not applicable
    - Withdrawal amount included in SC income tax
- Death of account holder
    - 2.5% penalty tax not applicable
    - Withdrawal amount included in SC income tax to the person who receives the monies unless they are a surviving spouse

Valuable Tip

When this law was passed, language was omitted as to when a Catastrophe Savings Account could be established. Technically, an account can be established after a disaster has already struck. You can deposit monies into the account and then immediately withdraw them to pay qualified catastrophe expenses and still deduct these funds from your SC income tax. Additionally, this tip has been verified with the SC Department of Insurance.

These accounts are a little hidden gem within the SC tax code. If used correctly, they'll provide a little bit of tax relief in an often-stressful scenario. If you would like to learn more, please do not hesitate to contact your Portfolio Manager.

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