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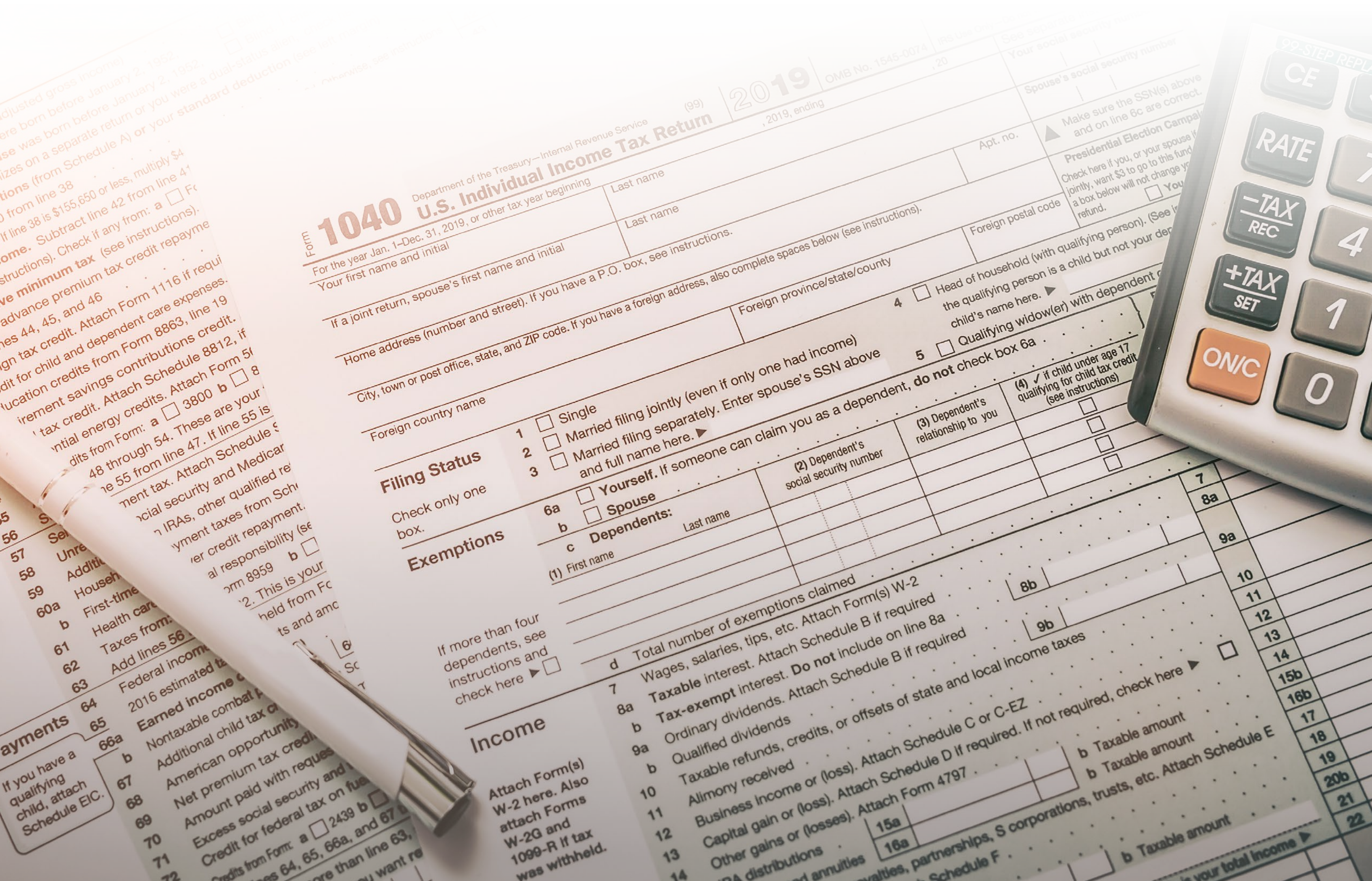
Tax Relief for Older Adults: A Basic Guide to Benefits



Taxes are on the minds of many older adults as April 15 looms closer. Many changes in the tax law that began in 2018 continue for the most part unchanged for the tax year 2024.

One of the most significant changes in the tax law for 2018 had to do with deductions. The new law nearly doubled the standard deduction for all taxpayers, both single and joint filers. But for those that choose to itemize, it also eliminates or limits some other popular deductions. Both of these changes may result in fewer people claiming itemized deductions.

If you prefer filing your own taxes – whether entirely on your own or with minimal assistance from a trusted financial advisor – it’s important to be aware of the latest deductions available to older adults in order to determine which approach works best for you.

This guide provides a basic overview of what tax benefits you can expect as an older adult (65 and older) when filing your taxes this year, as well as tips for protecting yourself from tax scammers and advice on how long to save tax documents.

Tax Benefits for Those 65+

While most federal income tax laws apply equally to all taxpayers, regardless of age, there are some provisions that take into account specific situations of older taxpayers. according to IRS Publication 554, older adults enjoy the following special provisions:

- **Higher gross income threshold for filing**
- **Credit for the elderly or disabled**
- **Higher standard deduction (if you do not itemize deductions)**

Older adults can take advantage of a number of other deductions to reduce income You should receive the necessary filing forms for your investments in early February. However, forms in regard to trusts can arrive at any time.

1. Medical and Dental Expenses:

The medical deduction remains at the 7.5% of adjusted gross income for tax year 2024. It has remained at 7.5% since the 2018 tax law change after initial drafts of the tax bill had the threshold increasing to 10% of adjusted gross income.

Many older adults take advantage of this deduction. As we get older, our bodies require more care. We visit doctors and specialists more frequently, require supplemental medication or medical equipment, and maybe even participate in fitness classes or hire a nutritionist to teach us the do's and don'ts of healthy living.

All the extra work we put into maintaining our bodies can add up. Medical expenses are one of the largest expenses for older adults. Fortunately, under Code §213(a), you can deduct your medical expenses that exceed 7.5 % of your AGI in 2024, as discussed above. Under that code, a taxpayer is allowed a deduction for expenses paid during the year not compensated by insurance or otherwise for medical care. The statute, in relevant part, defines medical care as amounts paid for:

- **The diagnosis, cure, mitigation, treatment, or prevention of disease or for the purpose of affecting any structure or function of the body**
- **Transportation primarily for and essential to medical care**
- **Qualified long-term care services**
- **Insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged covering "medical care" or for any qualified long-term care insurance contract**

Prepaid medical costs can also be deducted. The internal Revenue service's (IRS) long-standing position is the portion of the lump sum entry fee and the portion of the monthly fee attributable to medical care paid by continuing care retirement community residents is deductible as medical expenses (not long-term care insurance) under Code §213(a).

"Most Kendal at Oberlin residents receive a significant tax deduction for the medical component of the monthly fee. New residents receive an even greater tax deduction for the medical component of the entry fees they pay. It is important for first year Kendal at Oberlin residents to plan for this deduction to make use of all or as much as possible of the medical deduction as any unused amount does not carry forward to subsequent tax years."

- Vance DeBouter, CPA

Kendal at Oberlin residents and those who pay similar costs in other life plan communities are entitled to a deduction under §213 of the IRS Code for a portion of the entrance and/or monthly maintenance fees. The amount of the per capita medical deduction is calculated annually.

2. Selling Your Main Home

Many older adults choose to sell their homes in favor of downsizing to smaller condos or joining campus-based retirement living communities. If you lived in your home for many years, it's likely you had substantial equity, earning a large profit on the sale.

But now that your moving boxes are unpacked, you're wondering: Is any of the gain from the sale of my home taxable?

According to IRS Publication 554, you can generally exclude up to $250,000 ($500,000 on a joint return in most cases) of the gain on the sale of your main home. To claim the exclusion, during the five-year period ending on the date of sale, you must have:

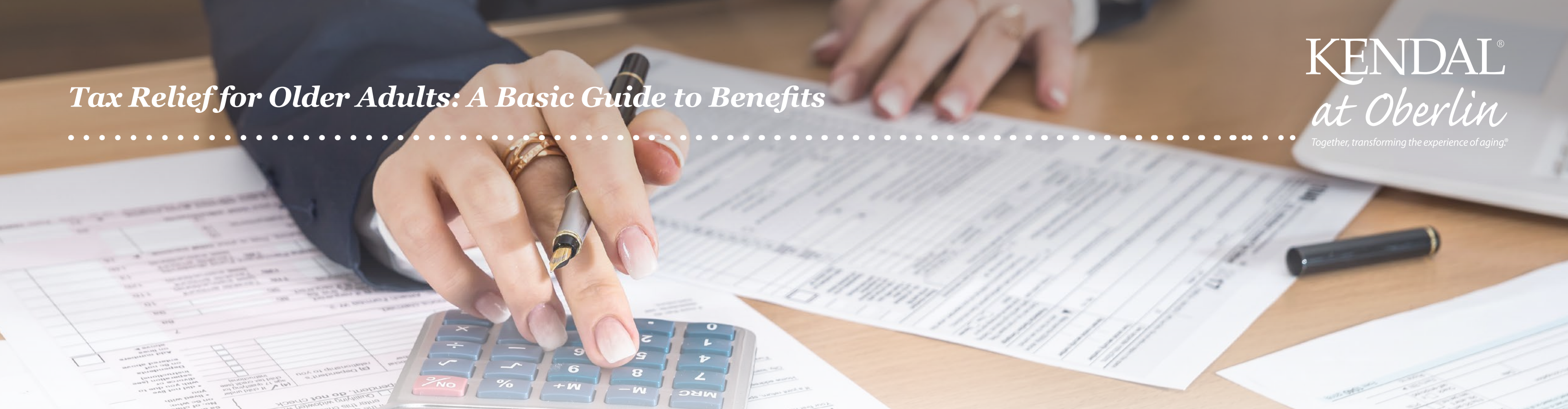
- **Owned the home for at least two years (the ownership test)**
- **Lived in the home as your main home for at least two years (the use test)**
- **During the two-year period ending on the date of the sale, you did not exclude gain from the sale of another home**

Generally, if you can exclude all of the gain, you do not need to report the sale on your tax return unless you receive a form 1099-S from your real estate broker.

Note: If your spouse passed away and you did not remarry before the date of sale of your main home, you are considered to have owned and lived in the property as your main home during the period of time when your spouse owned and lived in it as a main home. You may qualify to exclude up to $500,000 of any gain from the sale or exchange of your main home if you meet all of the following requirements:

- **The sale or exchange took place no more than two years after the date of death of your spouse**
- **You have not remarried**
- **You and your late spouse met the use and ownership tests at the time of your spouse's death**
- **Neither you nor your late spouse excluded gain from the sale of another home during the last two years**

Do not report the sale of your main home on your tax return unless you have a gain and you do not qualify to exclude all of it, you have a gain and you choose not to include it, or you have a loss and you received Form 1099-S. If you have any taxable gain on the sale of your main home that cannot be excluded, report the entire gain on Schedule D (Form 1040).



3. Traditional IRA Contributions and Distributions

An IRA (individual Retirement Arrangement), according to CNN Money, is essentially a savings account with big tax breaks. an IRA itself is not an investment—rather, it is the basket that holds stocks, bonds, mutual funds, and other assets.

Those older than 50 have higher contribution limits for traditional IRAs. According to IRS Publication 554, two distinct advantages of traditional IRAs are

1. You may be able to deduct some or all of your contributions to it, depending on your circumstances.
2. Generally, amounts in your IRA, including earnings and gains, are not taxed until distributed

The SECURE Act changed the minimum age for Required Minimum Distributions (RMD), when you must begin withdrawing and paying ordinary income tax on funds from your IRA. RMDs are the minimum amounts you must withdraw from your retirement accounts annually. You generally need to start taking withdrawals from your traditional IRA and retirement plan accounts when you reach age 72 (73 if you reach age 72 after Dec. 31, 2022).

You may make a distribution from your IRA directly to a qualified charity. The amount of the distribution will not be included in your adjusted gross income, which means that it will not be taxed by the state or the federal government. The amount also cannot be taken as a charitable deduction, since it is not taxable income.

Here's how it works: Instead of withdrawing (and paying taxes on) the money from your IRA, you can tell the custodian of the account to send your withdrawal of up to $105,000 directly to a charitable organization. This transaction is called a **"Qualified Charitable Distribution or QCD's."** Charitable organizations, unlike beneficiaries, do not need to pay income tax on withdrawals from traditional IRAs. Note: IRA funds donated in this fashion cannot be used for contributions to donor-advised funds, supporting organizations or private non-operating foundations.

> ***"I have seen a steady increase in the number of QCD's in each of the last four filing seasons. The QCD not only satisfies part or all of your required minimum distributions but the amount designated for the charity is not included in your adjusted gross income and not subject to taxation by the IRS for those who do not itemize deductions and is not subject to taxation by the state of Ohio or the Oberlin School District."***
>
> \- Vance DeBouter, CPA

Finally, check out these three other important tips about traditional IRAs:

1. Although interest earned from your traditional IRA generally is not taxed in the year earned, it is not tax-exempt interest. Do not report this interest on your tax return as tax-exempt interest
2. The most that can be contributed to your traditional IRA for those 50+ is now $8,000 as long as you have taxable compensation.
3. Starting in tax year 2020 you can make IRA contributions as long as you have taxable compensation. Prior to 2020 you could not make IRA contributions after age 70 ½. For tax year 2020 there were no required minimum distributions from IRA's or other qualified retirement plans such as 401k's and 403b's. Required distributions resumed in 2021.

4. Investment Income

For most people, investment income is the total of the following amounts:

- **Taxable interest**
- **Tax-exempt interest**
- **Dividend income**
- **Capital gain net income**

If seeking outside help to prepare the investment income portion of your taxes, be sure you have all the necessary details.

"Calculating the capital gain on the sale of stocks and mutual funds can be difficult especially if held for a long time. Transactions since tax year 2013 have been tracked by your broker but older transactions oft times are missing the cost basis that you or your tax preparer needs to prepare your returns. I have worked with various brokers who have a new tool that can essentially work backwards from the sale date to come up with an approximate basis if you know when or approximately when the stock or mutual fund was purchased."

- Vance DeBouter, CPA

You should receive the necessary filing forms for your investments in early February. However, forms in regard to trusts can arrive at any time.

5. Charitable Contributions

While you may have given back to your community throughout your lifetime by volunteering or dropping a few dollars in the collection basket every Sunday, post retirement is the time when many older adults begin to give gifts of significant value to their communities. Charitable contributions can include outright or planned gifts such as bonds, cash or check, mutual funds, real estate, tangible personal property, bequests, and scholarships.

You can benefit from large charitable contributions made to qualified charities by itemizing these deductions on Schedule A. You can also benefit from donating appreciated stock directly to a charity and taking a deduction for the fair market value on the date of the transaction. Most organizations (other than churches and government) must apply to the IRS to become a qualified organization. Go to the IRS "Exempt Organizations Select Check" tool to search for qualified organizations.

Charitable contributions are subject to special limitations. For tax year 2024, your deduction for charitable contributions cannot exceed 60% of your adjusted gross income. The 100% provision under the CARES act for tax years 2020 and 2021 is no longer available.

Additionally, if you donate property other than cash, you generally can deduct the fair market value of the property at the time of the contribution. See IRS Publication 526 for complete details on itemizing charitable contributions on your taxes.

6. *A Review of What Was Eliminated or Changed in 2018*

Let's take a look at some of the [deductions that were eliminated or changed effective in 2018.]

1. Personal exemptions

2. Home equity loan interest (unless the proceeds are used to make improvements on the taxpayer's main residence, in which case the interest is still deductible)

Example 1:

In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home with a fair market value of $800,000. In February 2018, the taxpayer takes out a $250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Because the total amount of both loans does not exceed $750,000, all of the interest paid on the loans is deductible. However, if the taxpayer used the home equity loan proceeds for personal expenses, such as paying off student loans and credit cards, then the interest on the home equity loan would not be deductible.

Example 2:

In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2018, the taxpayer takes out a $250,000 loan to purchase a vacation home. The loan is secured by the vacation home. Because the total amount of both mortgages does not exceed $750,000, all of the interest paid on both mortgages is deductible. However, if the taxpayer took out a $250,000 home equity loan on the main home to purchase the vacation home, then the interest on the home equity loan would not be deductible.

3. Moving expenses

4. Casualty/theft losses (except in areas where a presidential disaster declaration was made)

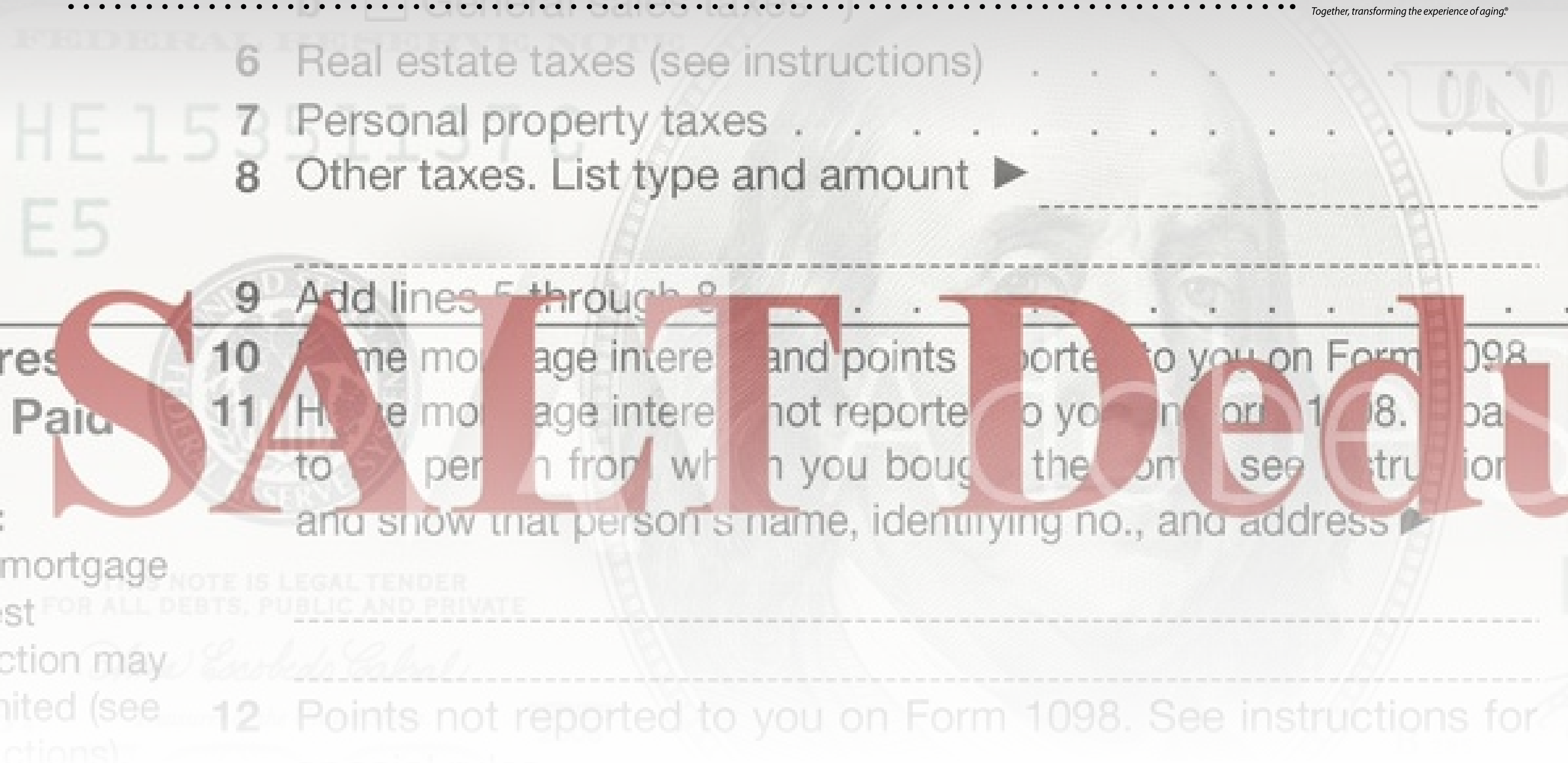
5. Job expenses

6. Tax preparation fees (Exception - If you have Schedule C, E or F income, a portion of the tax preparation fees can be deducted on those schedules.)

7. Investment fees and expenses

8. Trustee fees for an IRA if paid separately

Source: ***https://www.usatoday.com/story/money/taxes/2017/12/26/these-9-tax-deductions-are-going-away-in-2018/108910040/***



7. *What Else Changed?*

The deductions that were eliminated or changed in 2018 have not changed for tax year 2024. The medical deduction remains at 7.5% of adjusted gross income.

The standard deduction increased to $14,600 for single and filing separately. Add an additional $1,950 if you are over age 65. If you are married and filing jointly, the standard deduction is $29,200. If either of you are over age 65, you can take an additional $1,550 per qualifying individual.

1. The $10,000 cap on deductions for state and local taxes (SALT) remains in effect for tax year 2024. Some states are considering legislation to allow larger deductions for state tax purposes only, but currently, Ohio is not one of those states.

2. The new tax code also capped the mortgage deduction at $750,000 in mortgage debt, instead of $1 million under the previous law.

Be Wary of Tax Scammers

According to the Huffington Post, complaints and financial losses among baby boomers have skyrocketed in the last decade. Some sources estimate older adults lose approximately $2.6 billion a year due to fraud and other financial abuses. While a scam can happen at any time, it's important to be especially wary during tax season when your personal financial information is often lying on your kitchen table for prying eyes to see.

The Missouri Department of Revenue (DOR) provided the following tips and reminders to help older adults protect themselves from fraud:

- **If not using a tax return professional, filers need to use trusted sources of assistance when filing claims. You may find it helpful to visit a Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE) or American Association of Retired Persons (AARP) Tax-Aide site near you.**
- **If an individual asks for personal information to assist you in filing a benefits application, make sure they can explain why that information is needed and how it will be used once the application has been completed.**
- **Be wary of individuals who come to your home with offers to assist in financial matters that seem too good to be true**

If you receive a phone call from someone who tells you that you have a tax liability and will be arrested if you do not pay immediately, hang up the phone. The IRS sends notices by mail and does not call you or send email messages. Most of these callers ask for payment in Bitcoin or gift cards. Once payment is made, the money is lost.

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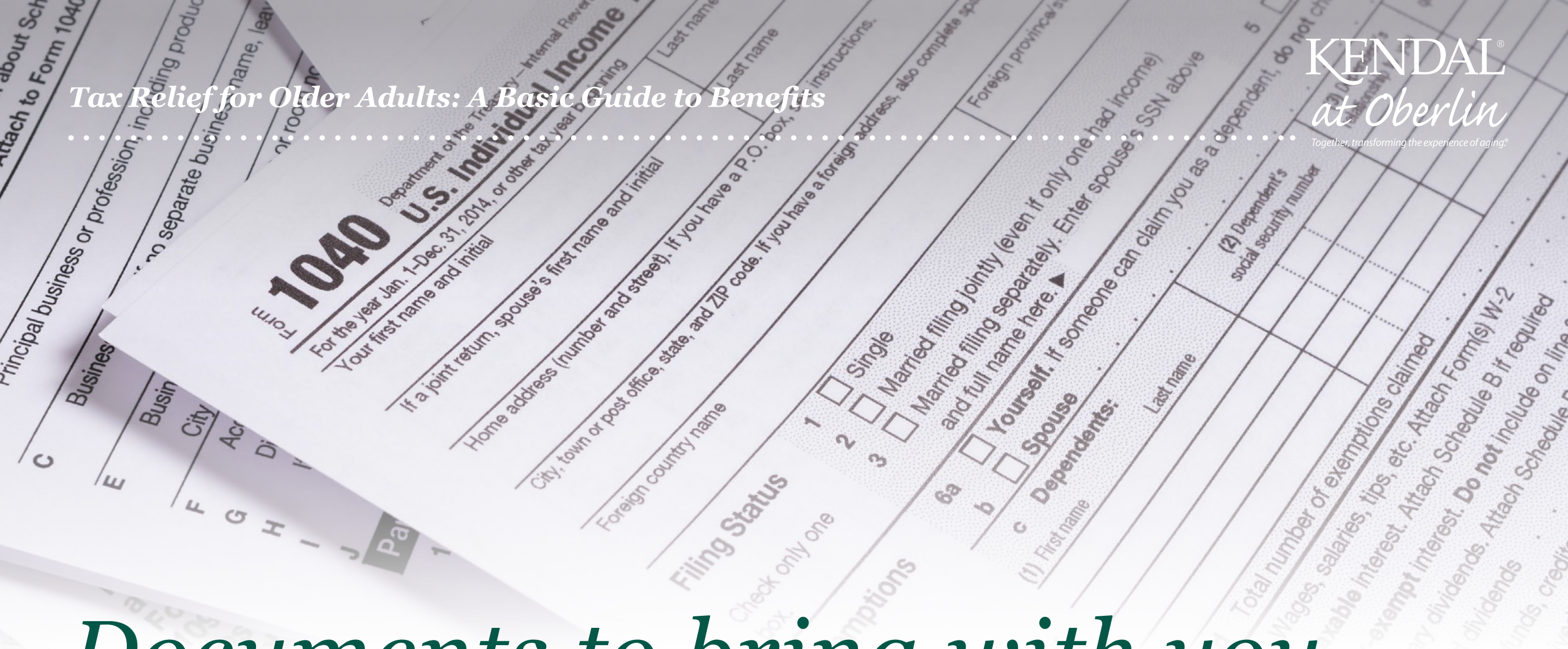

Documents to bring with you when you meet with a tax professional.

- **Social Security cards or numbers for all persons who will appear on the 1040 tax form, including all dependent children**
- **A copy of last year's federal and state returns**
- **All W-2 forms from all employers**
- **Form SSA-1099 showing Social Security benefits received for you and your spouse**
- **All other 1099 forms showing interest, dividends, pension, annuities, etc.**
- **Information about medical/dental expenses. Remember that you may be able to deduct medical expenses on your state return even if you do not deduct them on the federal return.**

- **Information about charity contributions, state and local taxes paid, and similar records if you think you have enough expenses to qualify for itemizing deductions.**
- **Information related to the Affordable Care Act and participation in the Health Insurance Marketplace, including the various types of Form 1095 (if applicable)**
- **Ohio now requests that information from your driver's license be included in the electronic file of your Ohio tax return in an effort to combat fraud, so please bring your driver's license to your tax preparer.**

Saving Tax Documents

After filing is finally over and you've received your tax returns, many older adults wonder just how long they need to hold on to those tax documents. But the answer you receive depends on which tax expert you ask, says Jim Young on the AARP blog.

IRS Publication 552 states you are required to keep records as long as they may be needed for the administration of any provision of the IRS. This means you should keep records that support items on your tax return until the period of limitations— the time you can amend your return to claim a credit/refund or be assessed by the IRS—expires. which is three years after the due date of the tax return.

Basic records you should always keep include those concerning:

- **Income: Form(s) W-2, Form(s) 1099, Bank statements, Brokerage statements, Form(s) K-1**

- **Expenses: Sales slips, Invoices, Receipts, Canceled checks or other proof of payment, Written communications from qualified charities**

- **Home: Closing statements, Purchase and sales invoices, Proof of payment, Insurance records, Receipts for improvement costs**

- **Investments: Brokerage statements, Mutual fund statements, Form(s) 1099, Form(s) 2439**

The good news is the IRS does not require you to keep your records in a particular way, so if you've recently downsized your home, you can save space by storing tax records electronically.

Keep your tax documents organized and in one place. Many tax documents will arrive either in the mail or electronically starting in mid-January. Most Kendal at Oberlin residents will need to compile a list of medical deductions and charitable contributions so start this process early and keep good records so you are not overwhelmed by the first week in April and miss deductions that could reduce your tax liability.

One last word of advice is to file your taxes as soon as you've received all of your required forms. Taxes are due in the middle of April; don't wait until the last minute. If there's a problem, and you find you're missing a form, you're scrambling

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