

Tax Considerations for Retirees

Are you aware of them?

Provided by Rhonda Heineman CFP®

The federal government offers some major tax breaks for older Americans. Some of these perks deserve more publicity than they receive.

If you are 65 or older, your standard deduction is \$1,300 larger. Make that \$1,600 if you are unmarried. Thanks to the passage of the Tax Cuts & Jobs Act, the 2018 standard deduction for an individual taxpayer at least 65 years of age is a whopping \$13,600, more than double what it was in 2017. (If you are someone else's dependent, your standard deduction is much less.)¹

You may be able to write off some medical costs. This year, the Internal Revenue Service will let you deduct qualifying medical expenses once they exceed 7.5% of your adjusted gross income. In 2019, the threshold will return to 10% of AGI, unless Congress acts to preserve the 7.5% baseline. The I.R.S. list of eligible expenses is long. Beyond out-of-pocket costs paid to doctors and other health care professionals, it also includes things like long-term care insurance premiums, travel costs linked to medical appointments, and payments for durable medical equipment, such as dentures and hearing aids.²

Are you thinking about selling your home? Many retirees consider this. If you have lived in your current residence for at least two of the five years preceding a sale, you can exclude as much as \$250,000 in gains from federal taxation (a married couple can shield up to \$500,000). These limits, established in 1997, have never been indexed to inflation. The Department of the Treasury has been studying whether it has the power to adjust them. If modified for inflation, they would approach \$400,000 for singles and \$800,000 for married couples.^{3,4}

Low-income seniors may qualify for the Credit for the Elderly or Disabled. This incentive, intended for people 65 and older (and younger people who have retired due to permanent and total disability), can be as large as \$7,500 based on your filing status. You must have very low AGI and nontaxable income to claim it, though. It is basically designed for those living wholly or mostly on Social Security benefits.⁵

Affluent IRA owners may want to make a charitable IRA gift. If you are well off and have a large traditional IRA, you may not need your yearly Required Minimum Distribution (RMD) for living expenses. If you are 70½ or older, you have an option: you can make a Qualified Charitable Distribution (QCD) with IRA assets. You can donate up to \$100,000 of IRA assets to a qualified charity in a single year this way, and the amount donated counts toward your annual RMD. (A married couple gets to donate up to \$200,000 per year.) Even more importantly, the amount of the QCD is excluded from your taxable income for the year of the donation.⁶

Some states also give seniors tax breaks. For example, the following 11 states do not tax federal, state, or local pension income: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, New York, and Pennsylvania. Twenty-eight states (and the District of Columbia) refrain from taxing Social Security income.⁷

Unfortunately, your Social Security benefits could be partly or fully taxable. They could be taxed at both the federal and state level, depending on how much you earn and where you happen to live. Whether you feel this is reasonable or not, you may have the potential to claim some of the tax breaks mentioned above as you pursue the goal of tax efficiency.^{5,7}

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