



TAX TIPS FOR SENIORS AND THEIR FAMILY

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ESTATE TAXES

- 2015 Estate Tax Exemption Amount: \$5,430,000 per person.
- Portability to ensure use of both spouses' exemption amounts.
- Virginia does not currently have an estate tax.
- Majority of Americans DO NOT need estate tax planning BUT do need **estate planning** to ensure assets are distributed properly and beneficiaries' interests are protected and **lifetime planning** to protect assets and qualify for benefits.

GIFT TAXES

- 2015 Annual Exclusion Amount:
\$14,000 per person, per Donee. No gift tax return is filed for gifts within the annual exclusion amount.
- Unified system with the federal estate tax allows for combined lifetime gifts (not counting annual exclusion gifts) and assets passing at death to equal \$5,430,000 per person for persons dying in 2015.
- Virginia does not have a gift tax.

GENERATION SKIPPING TRANSFER TAX (GST)

- GST Tax is a tax imposed on transfers to persons who are more than one generation below that of the transferor (e.g., from grandparent to grandchild).
- GST Tax is only imposed on transfers that are in excess of the estate tax exemption amount.
- If imposed, tax is equal to a minimum of 40% of the transfer.
- Transferors can allocate GST exemption amount to transfers by filing a federal gift tax return (Form 709).
- This is a very complicated taxation regime. If you are making gifts in excess of the annual exclusion amount to grandchildren or more remote descendants, consult with a qualified attorney before making such gifts.

“GIFTS” UNDER THE TAX CODE

- Direct payment of another’s medical expenses or educational expenses **MADE DIRECTLY TO THE INSTITUTIONAL PROVIDER** are NOT GIFTS.
- Contrast with Funding a Grandchild’s 529 Account:
 - Taxable gift, but annual exclusion is available.
 - May make lump-sum gift up to \$70,000 and treat as if made ratably over 5 years. (May result in estate tax inclusion and requires GST allocation if that is a potential issue.)
 - Benefits include income-tax free appreciation and withdrawals for qualified payments.

INCOME TAXES

What's New?

- Alternative Minimum Tax Exemption Increased
 - \$52,800 Single
 - \$82,100 Married Filing Joint
 - \$41,050 Married Filing Separately
- Exemption PhaseOut Begins for A.G.I. Greater Than -
 - \$254,200 Single
 - \$305,050 Married Filing Joint
 - \$152,525 Married Filing Separately
- Limit on Itemized Deductions Begins
 - A.G.I. greater than \$152,525

What's New? (cont'd)

- 3.8% Net Investment Surtax – Assessed on Lesser of:
 - Net Investment Income
 - or
 - Amount by which M.A.G.I. (Investment Income + Wages/Salary + Retirement Distributions) exceeds \$250,000 (M.F.J.) or \$200,000 (S).
- Net Investment Income is income received from investment assets (including rent, dividends, interest, annuities, etc.) but does not include income from IRA or other qualified retirement plans.

BENEFITS OF GETTING OLDER

- Higher Gross Income Threshold for Filing.
- Higher Standard Deduction.
- Credit for the Elderly or the Disabled.
- Lower Threshold For Deducting Medical and Dental Expenses - (7.5% of A.G.I. v. 10% of A.G.I.).
- Return Preparation Assistance
 - Volunteer Income Tax Assistance and Tax Counseling for the Elderly - Call Local I.R.S. Office
 - AARP Tax-Aide (1-888-227-7669)
- Property Tax Deductions – See your Locality for Details. Disabled Vets and spouses may Qualify for Additional Relief.

2014 FILING REQUIREMENTS

- Gross Income

IF your filing status is...	AND at the end of 2014 you were...	THEN file a return if your gross income was at least...
Single	65 or older	\$11,700
Head of Household	65 or older	\$14,600
Married Filing Jointly	65 or older (one spouse)	\$21,500
	65 or older (both spouses)	\$22,700
Married Filing Separately	Any age	\$3,950
Qualifying Widow(er) with dependent child	65 or older	\$17,550

WHAT IS GROSS INCOME?

- Social Security
- Pensions, Withdrawals from Retirement Accounts, Annuity Payments*
- Interest
- Dividends (Including Reinvested Dividends)
- Capital Gains
- Tax-Free Interest*



WHAT IS NOT INCOME?

- Life Insurance Proceeds*
- Gifts
- Inheritances*
- Annuity Payments*
- Disability Payments*
- VA Benefits
- SSI (Supplemental Security Income Benefits)



INCOME TAX FILING REQUIREMENTS WHEN SOMEONE DIES

- Decedents
 - File *Final* individual return for Decedent in year of death.
- Surviving Spouse
 - May file *Joint Return* with spouse in year of death.
 - If surviving spouse remarries before end of year of death of spouse, then, file *Jointly with new spouse*. The deceased spouse's return is filed *Married Filing Separately*.
- Estate of Decedent may have a separate income tax filing obligation. Consult your attorney.

RETIREMENT PLAN DISTRIBUTIONS

(IRA, 401K, 403b, etc.)

- IRAs
 - Roth: Not Taxable
 - Traditional: Taxable Unless File Form 8606 Showing Non-Deductible Contributions
- Required Minimum Distributions (R.M.D.) calculated based on *total* in ALL qualified retirement plans.
- R.M.D. MAY be taken out of ANY qualified plan.
- Amounts received from inherited IRA are subject to income tax.

RETIREMENT PLAN DISTRIBUTIONS

(IRA, 401K, 403b, etc.) (cont'd)

- Early Distribution (Before Age 59 ½) May Be Subject To 10% Additional Tax Unless Qualify For An Exception
 - Part of a series of substantially equal periodic payments over life expectancy.
 - Totally and permanently disabled.
- Distributions between Age 59 ½ - 70 ½ Not Subject to 10% Extra Tax But Still Taxable
- Required Minimum Distributions (By April 1st of the Year Following Year You Turn 70 ½ Unless Still Working With Employer Maintaining the Plan)
 - If take less than R.M.D., may pay 50% excise tax on amount not distributed.

MILITARY RETIREMENT PAY

- If Pay is Based on Age or Length of Service = Taxable
- If Pay is a Disability Pension Based on Percentage of Disability From Active Service = Non-Taxable



TAXATION & SOCIAL SECURITY BENEFITS

- Social Security and Equivalent Railroad Retirement Benefits – Does Not Include SSI

- Are Any of Your Benefits Taxable?

One-half of your benefit + all other income (including tax-exempt interest).

If total is greater than the base amount, part of your benefit may be taxable.

- Base Amount

\$25,000 Single or M.F.S. (lived apart from spouse all of 2014)

\$32,000 M.F.J.

\$0 M.F.S. (lived with spouse in 2014)

SOCIAL SECURITY

- Full Retirement Age (2014 & 2015): 66 years old
- Benefit Received at 62 years old =75%
- Maximum Earnings Before Benefits Reduced if Under Full Retirement Age (66): \$15,720
 - Lose \$1 for Every \$2 Earned over Limit
- Year Turn Age 66:
 - Lose \$1 for Every \$3 Earned Over \$41,880 (counting only months prior to turning Age 66).
- A portion of S.S.D.I. payments may be taxable depending on other household income.

DISABILITY

- Income includes any disability pension received under plan paid for by your employer until reach minimum retirement age.
- After reaching minimum retirement age, payments are treated like an annuity or pension.
- Lump-sum payments received for accrued annual leave are treated as salary.
- L.T.C. insurance – amounts received are not income if you paid the entire cost of plan; if employer pays part, may only exclude cost relative to your payment.

TRANSFER OF APPRECIATED ASSETS

- Loss of Step-Up in Basis
- Donee retains Donor's Adjusted Basis as of the Date of Transfer.
- Transfers to Charity:
 - Income tax deduction generally limited to basis for ordinary income assets (short-term securities, manuscripts and artwork created by donor).
 - Deduction is fair market value on date of transfer for long-term securities and other capital gain property (real property, coin collection). No capital gains tax is realized by Donor.

SALE OF HOME

- Exclusion from income of gain up to \$250,000 (\$500,000 for a married couple); May exclude once every 2 years.
- Requirements:
 - 1) Ownership – In the preceding 5 years, must have owned the house for a minimum of 2 years; and
 - 2) Use – Lived in the home as primary residence for at least 2 years.
- Important Exception: If you become physically or mentally unable to care for yourself and have owned and used the house as primary residence for at least 1 year, then deemed to live in the home at any time you are in a licensed facility that cares for people in your condition.

SALE OF HOME (cont'd)

- Surviving spouse can exclude up to \$500,000 in gains, if:
 - 1) the house is sold within 2 years of deceased spouse's death;
 - 2) he/she has not remarried;
 - 3) spouse met the ownership and use tests at date of death; and
 - 4) spouse had no prior exclusion within 2 years of the date of death.

LIFE INSURANCE PROCEEDS

- Generally not includable in income unless policy purchased from another.
- Proceeds received in installments – a portion of each installment may be taxable because it represents interest or earnings on the proceeds of the policy.
- Surrender of Policy for Cash – included in income proceeds that are in excess of the cost of the insurance (usually premiums paid).

DEDUCTIONS

- Standard Deduction
- 65 or older \$7,750 Single
 \$14,800 MFJ (both Age 65 or older)
- Itemized Deductions
 - Home Mortgage Interest
 - Real Property Taxes
 - State Income Taxes
 - Medical and Dental Expenses **PAID** in 2014



- Medical and Dental Expenses

- Includes among other items:
 - Capital expenses to home for equipment or necessary for medical care;
 - Guide dogs;
 - Hospital, doctor, pharmacy;
 - LTC insurance premiums;
 - Qualified LTC expenses;
 - Transportation; and
 - Medical insurance premiums.



- Medical and Dental Expenses(cont'd)

- Does NOT Include:
 - Household help except nursing service and personal care services under LTC;
 - Non-prescription medicine (except insulin); and
 - Medications imported from outside U.S.



DEDUCTIONS (cont'd)

- Individual Retirement Account (IRA)
Contributions and Deductions
 - Contribution Limits – Lesser of compensation or \$6,500, if Age 50 or older (if M.F.J., each spouse can contribute \$6,500).
 - Deductible Contribution – Limited to amount of contribution but no deduction, if covered by employer plan for part of year.
 - Non-Deductible Contributions – File Form 8606 to get credit for amount of contribution that is not deductible. Consider rollover to Roth IRA.

DEDUCTIONS (cont'd)

- Charitable Deductions
 - Limited to 50% of A.G.I. for cash gifts.
 - Limited to 30% of A.G.I. (appreciated assets and donations to private foundations)
 - 5-Year Carry Forward
 - Clothing and household items – no deduction in excess of \$500 without qualified appraisal.
 - Car – deduction is smaller of fair market value on date of donation and gross proceeds of sale (Form 1098-C).

CLAIMING PARENT AS DEPENDENT

- Parent must not file joint return.
- Parent must have gross income less than \$3,950 (not including social security or tax-exempt income unless portion of social security is taxable).
- You must provide more than $\frac{1}{2}$ of support for the year.
- Parent must be a resident of the U.S. or a U.S. citizen or be a resident of Canada or Mexico.
- Even if you cannot claim as a dependent, you may be able to deduct medical expenses paid on their behalf on your taxes, if the parent meets the above test except for income of parent.

CREDITS

- Credit for the Elderly or the Disabled

- Qualified Individual who is

- 1) 65 or older

- OR

- 2)

- A. Retired on permanent and total disability;

- B. Received taxable disability income; and

- C. Not yet reached mandatory retirement age as of 1/1/14

- U.S. citizen or resident

- A.G.I. < \$17,500 (single), \$20,000 (M.F.J. – one spouse), \$25,000 (M.F.J. – spouses)

- Child and Dependent Care Credit

- If you pay someone to care for your dependent or spouse who is not able to care for themselves, you can claim this credit up to 35% of expenses paid provided that payments are made so that you can work.

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