TAXGUIDE for retirees

LINDA L. TELSCHOW, CPA, LLC
Certified Public Accountant

TAX BREAKS for retirees

When it comes to taxes, growing older can have its advantages. But older individuals may also have additional tax-related requirements. This brochure gives a quick overview of the major tax breaks and tax obligations retirement may bring.

Here are some of the tax breaks available as you reach a certain age.

■ ***Higher standard deductions.*** You're eligible for a higher standard deduction once you reach age 65.

■ ***Tax credit for the elderly.*** You may qualify for this direct credit against taxes if you're age 65 or older during the tax year. There are limitations if your tax-free pension benefits, such as social security, exceed certain levels. Income limitations also apply.

■ ***Tax breaks for social security benefits.*** Generally, you'll pay no tax on social security benefits if the total of one-half of the benefits plus all other income is less than $25,000 (singles) or $32,000 (married filers). Above those levels, you'll pay tax on up to 50% of your benefits. High-income seniors could be taxed on up to 85% of their social security benefits.

■ ***Higher return filing threshold.*** Because of the higher standard deductions and potentially tax-free social security benefits, your taxable income may not reach the filing threshold. You may need to file for other reasons, though.

■ ***Higher contributions.*** Once you reach age 50, you may contribute more to your retirement accounts. Also, at age 55, you can contribute an extra amount to a health savings account.

YOUR home

For many seniors their house is their biggest asset. Did you know that your home may be an additional source of retirement income?

■ ***Reverse mortgage.*** If you're at least 62 years old and own your own home, you can use a reverse mortgage to convert your home into nontaxable income.

With a reverse mortgage, the lender makes loan advances to you which don't have to be repaid until your death. Repayment of the loan and accrued interest would also come due if you sell the house or move, but you won't have to repay more than your home is worth.

■ ***Home sales.*** You may plan to sell your home if you move or want to downsize in retirement. Couples who file a joint tax return can keep up to $500,000 of the profit on a home sale tax-free ($250,000 for singles).

TAXES and retirement accounts

Retirement accounts grow tax-deferred until you need the funds. However, in most cases your money cannot remain in these accounts forever. The IRS has rules that dictate when and how much you must withdraw from your retirement accounts.

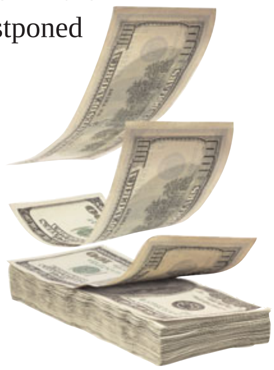
■ ***Required withdrawals.*** The amount you must withdraw each year is called your required minimum distribution (RMD). You can withdraw more than the

Retirees need to be aware of **tax breaks** and **tax obligations** retirement may bring required minimum distribution from your retirement accounts, but if you fail to take at least the required minimum on time, you face a severe 50% penalty.

These rules apply to traditional IRAs and qualified retirement plans, but they do not apply to Roth IRAs during the owner's lifetime.

In most cases, you must begin withdrawing money from your retirement accounts as follows:

- Your first withdrawal can either be taken in the year you turn age 70½, or it can be postponed until April 1 of the following year.
- Your second withdrawal must be taken by December 31 of the year after you turn 70½.
- In each subsequent year, you must withdraw at least the required minimum amount by December 31.



If you're still working at age 70½ and you own less than 5% of the company you work for, you can wait until you retire to begin taking distributions from qualified plans, such as 401(k)s. This exception does not apply to traditional IRAs.

■ ***Income tax planning.*** Your retirement fund trustee must tell the IRS whether you are required to take a minimum distribution. Because all or part of your distribution may be taxable income, it is important to include RMDs in your tax planning.

■ ***Estate planning.*** Retirement accounts are subject to estate tax as well as income tax. If you die owning an IRA or 401(k), your plan will be considered an asset in your estate and, like every other asset, it could be subject to estate tax. And since most retirement plans contain untaxed income, your plan could also be hit with income tax when it is distributed to your heirs. Unless you want the tax man to end up with a large chunk of any retirement funds left in your estate, planning is essential.

The information in this brochure is of a general nature and should not be acted upon without further details and/or professional guidance. For assistance, please contact our office.

LINDA L. TELSCHOW, CPA, LLC
Certified Public Accountant

54 Main Street, Suite 101 • Succasunna, NJ 07876
(973) 810-4210 • FAX (973) 398-1880
linda@telschowcpa.com • www.telschowCPA.com