KENDAL® at Home

Together, transforming the experience of aging.®

TAX RELIEF FOR OLDER ADULTS: A BASIC GUIDE TO BENEFITS

Taxes are on the mind of many older adults *as April 15 looms closer.*

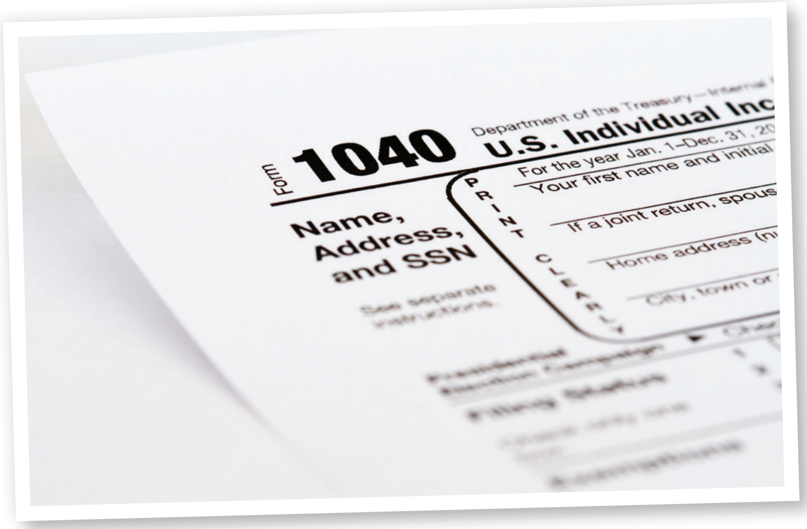
If you prefer filing your own taxes – whether entirely on your own or with minimal assistance from a trusted financial advisor – it's important to be aware of the latest deductions available to older adults in order to take advantage of all the tax breaks.

This guide provides a basic overview of what tax benefits you can expect as an older adult (those 65 and older) when filing for the 2015 tax season, 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
- Higher standard deduction (if you do not itemize deductions)
- Credit for the elderly or disabled



And that's not all! Older adults can take advantage of a large number of other deductions to reduce income taxes. These include:

1. Medical and Dental Expenses

As we age, 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.

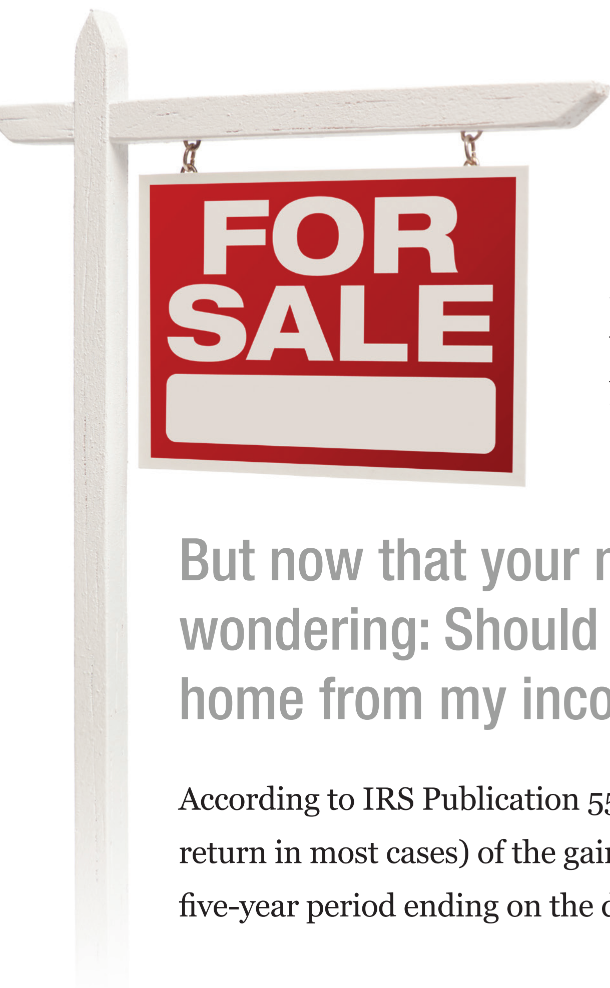
All the extra work we put into maintaining our bodies can add up. Medical expenses are one of the largest expenses for older adults. Fortunately, under Code §213(a), a taxpayer is allowed a deduction for expenses paid during the year not compensated by insurance or otherwise for medical care. If neither you nor your spouse is 65 years of age or older, you can only deduct medical expenses that exceed 10% of the adjusted gross income, starting in the 2013 tax year. If at least one taxpayer is 65 or older, medical expenses must exceed 7.5%. 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 retirement facility residents is deductible under Code §213(a).

> "At Kendal at Home, there's a significant potential tax deduction one can get because of the monthly fee related to medical expenses," says AARP Tax Aide Joe Palmieri. "The same thing is true for the entrance fee for both. A portion of the entrance fee is tax deductible as a medical expense."

For Kendal at Home members, 60 percent of the monthly fee and 100 percent of the entry fee qualifies for medical deduction. This means Kendal at Home members and those who pay similar costs are entitled to a deduction under §213 of the IRS Code for a portion of membership, entrance, and monthly maintenance Fees.



2. Selling Your Main Home

Many older adults choose to sell their homes in favor of downsizing to smaller condos. 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: Should I exclude the gain from the sale of my home from my income?

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

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:

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

Once you reach 70 ½ years old, you must begin withdrawing and paying ordinary tax income on funds from your IRA. However, according to Forbes, Congress enacted a special IRA charitable rollover tax deal during its fiscal cliff negotiations in early January that allows those 70 ½ and older to transfer as much as $100,000 a year from their traditional IRAs to charity. "These transfers may lead to reduced Ohio and school district taxes," says Palmieri.

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 directly to a charitable organization. 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.**

Finally, check out these two other important tips about traditional IRAs for 2014:

- 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
- The most that can be contributed to your traditional IRA is $6,500 for those 50+

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

Fees incurred for investment advice or accounting services are deductible to the extent they, along with your other itemized personal deductions, exceed 2 percent of your adjusted gross income. Examples include:

- Attorney and accounting fees
- Safe deposit box fees (only if used to hold investment information)
- Subscriptions to investment newsletters
- Home computers used for investment purposes
- Fees to financial planners
- Fees you pay to a broker, bank, trustee (or similar agent) to collect investment income

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

"One thing you need to know is how much your stock or mutual fund cost when you bought it," he says. Palmieri says he's met with many widows whose spouses purchased the investment but the survivors are unaware of the investment's original cost.

You should receive the necessary filing forms for your investments in early February; however, forms in regards 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. 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 example, your deduction for charitable contributions generally cannot be more than 50 percent of your adjusted gross income, but in some cases, 20 and 30 percent limits may apply. 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.

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.

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 pesky 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.

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.

One last word of advice from Palmieri 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, if you're missing a form, all of a sudden you're scrambling."

Remember, this document is intended as a basic overview of tax filing preparation for older adults. It was created using information from the IRS and other sources. While intended to help older adults in tax preparation, this document should not be used as a replacement for official filing advice by the IRS or other accounting professionals.

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www.kendalathome.org