

FREEDOM

Senior Advisors

Tax Tips for Seniors



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AGENDA

- Tax Tips for 2007
- Where to Get Assistance
- Scheduling a Tax Appointment
- Questions & Answers

FAVORABLE CAPITAL GAINS RATES STILL IN PLACE DURING 2007 & 2008

➤ **Qualified Tax Dividends are still taxed at lower capital gains rates for 2007**

<u>Single Filer</u>	<u>Income Tax Rate</u>	<u>Capital Gains Rate</u>
up to \$7,825	10%	5%
\$7,825 – 31,850	15%	5%
\$31,850 – 77,100	25%	15%
\$77,100 – 160,850	28%	15%
\$160,850 – 349,700	33%	15%
\$349,700 +	35%	15%

Note:

The 5% dividend tax rate will remain in place until December 31, 2007, and a zero percent rate in 2008.

Unfortunately, capital gains rates will "sunset" in 2009, when the 10%, and 20% capital gains rates replace the 5% and 15% rates in place today

HIGHER PERSONAL EXEMPTIONS & STANDARD DEDUCTION LIMITS

➤ Increased personal exemptions & standard deduction for 2007

- Personal / dependent exemption for 2007 increases to \$3,400 (\$3,300 in 2006)

- Higher Standard Deduction (if you do not itemize)

	<u>Status (Both)</u>	<u>Single</u>	<u>Married</u>
2007	> 65yrs	\$6,650	\$12,800
2006	> 65yrs	\$6,400	\$12,300

- If your itemized deductions exceed the Standard Deduction you will save \$15 for every \$100 of additional deductions (assuming you are in the 15% tax bracket)

TAXATION OF IRA DISTRIBUTIONS

- Beginning April 1st after turning age 70 ½ you must withdraw at least the required minimum distribution 'RMD' from your IRA every year and include this amount on your income tax return. If you do not take the 'RMD' you will be subject to a 50% excise tax
- 2007 was the last year you could opt to donate funds from your IRA to charity and exclude the income from your tax return
- Name a younger beneficiary to create a "stretch IRA"



TAXATION OF SOCIAL SECURITY BENEFITS

A portion of Social Security is taxed if substantial income is received in addition to Social Security Benefits

...Up to 85% of benefits are taxable

TAXATION OF LIFE INSURANCE DEATH BENEFITS & GIFTS

- Life insurance death benefit proceeds you receive as a beneficiary are not taxable
- Gifts to family members etc. (up to \$12,000 per person in 2007) are neither deductible by you ...nor counted as income to the recipient

Medical Expense Deductions

...can add up & reduce taxes

1. Medicare B premium paid by social security (\$93.50 per mo.)
2. Medicare D premiums
3. Medigap insurance premiums
4. Long-term care insurance premiums (over age 70, max is \$3,670)
5. Medical fees paid to CCRC (see PHS tax letter)
6. Nursing Home stays (including room and meals)
7. In-home private duty nurses if providing medical care
8. Medical Transportation \$.20 per mile

Review Publication 554 Older American for a list of medical and dental expense deductions. Also remember that the deduction threshold for NJ is 2% of income, whereas the Federal deduction threshold is 7.5% of AGI.

Use of your Car – Mileage Rates for 2007

Beginning Jan. 1, 2007, the standard mileage rates for the use of a car

Business = 48.5¢ per mile (50.5¢ 2008)

Medical = 20¢ per mile (19¢ in 2008)

Charitable Service = 14¢ per mile (14¢ in 2008)

MAKE CHARITABLE DONATIONS WITH APPRECIATED STOCK

Donating appreciated investments to Charities like the PHS Senior Living Foundation, provides a double tax benefit

Example: assume \$10,000 of ABC stock with a cost basis of \$1,000 (capital gain of \$9,000) is donated to PHS Senior Living rather than sold.

Tax Benefits Total \$3,850:

1. No income tax liability from sale of investment (avoid \$1,350 in capital gains tax, if in the 15% capital gain tier)
2. A charitable deduction equal to current value of investment donated \$10,000, resulting in income tax saving of \$2,500 (if you are in the 25% ordinary income tax tier)



DON'T OVERLOOK MISCELLANEOUS ITEMIZED DEDUCTIONS

- Fees paid to CPA's, Financial Planners and Attorneys for income tax return preparation, audits and estate-planning tax advice.
- Cost of subscriptions to investment newsletters and online services as a miscellaneous itemized deduction.
- Miscellaneous expenses must exceed 2% of adjusted gross income before the deduction may be taken

Tax Advantaged Investments Offer these Benefits

- Charitable Gift Annuities – offer 1) higher rates than CD's 2) guaranteed income for life, 3) portion of income is tax exempt and 4) charitable tax deduction in year of purchase
- Fixed and Variable Annuities – offer 1) guaranteed income for life and 2) tax deferred growth of income. Income is taxable when withdrawn above cost basis
- Municipal Bonds – offer tax exempt income



ESTIMATED INCOME TAXES

- You are required to file Federal Form 1040ES & NJ Form NJ1040ES quarterly if you expect to owe more than \$1000 to the IRS or \$400 to the State of New Jersey.
- You may be exempt from federal estimated tax penalties if you paid in at least 100% of the tax shown on 2006 tax return, or 90% of tax due on 2007 tax return.
- The final payment for 2007 is due 1/15/2008

TAX RECORD KEEPING

- **You should keep all ‘Tax Records’ for at least three (3) years from the date your return was due, plus the current year;**

Example: keep 2005, 2006, 2007 income tax records plus the current year 2008

Note: Also be sure to keep permanent records to establish the cost basis of each investment you own until it is sold, such as stock trade confirmations and real estate closing statements.

Tax Planning Beyond 2010...

Avoid New Jersey Toll Roads

Beginning 2010, and every 4 years thru 2022, the State of NJ is proposing a 50% increase in the Tolls charged on the;

- NJ Turnpike
- Garden State Parkway
- Atlantic City Expressway

Buy a Road Atlas or GPS to learn ways to avoid these toll roads!!!

Where to Get Assistance

IRS Publication 554 Older American's Tax Guide provides answers to most tax matters and changes affecting Seniors ...other resources

- IRS 800-829-1040 or email www.irs.gov
- New Jersey 800-324-4400 (Automated), 609-292-6400 (Customer Service) or email www.nj.gov
- AARP Tax Prep assistance 888-227-7669
- Taxpayer advocate 877-777-4778
- Large print returns are available (not for filing)

THANK YOU.....

for coming today...we look forward to assisting you with your 2007 tax preparation

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