

# FREEDOM

## Senior Advisors

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# TAX TIPS FOR SENIORS



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# Presentation Agenda

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- Tax Tips for 2006
- Where to Get Assistance
- Scheduling a Tax Appointment
- Questions & Answers



# TAX TIPS FOR 2006

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➤ **Increased personal exemption & standard deduction for 2006**

- Personal / dependent exemption for 2006 increases to \$3,300 (\$3,200 in 2005)

- Higher Standard Deduction (if you do not itemize)

	<u>Status (Both)</u>	<u>Single</u>	<u>Married</u>
2006	> 65yrs	\$6,400	\$12,300
2005	> 65yrs	\$6,250	\$12,000

- 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)



# TAX TIPS FOR 2006 (continued)

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- **Qualified Tax Dividends are still taxed at lower capital gains rates for 2006**

<u>Single Filer</u>	<u>Income Tax Rate</u>	<u>Capital Gains Rate</u>
up to \$7,300	10%	5%
\$7,301- 29,700	15%	5%
\$29,701- 71,950	25%	15%
\$71,951- 150,150	28%	15%
\$150,151- 326,450	33%	15%
\$326,450+	35%	15%

Note: The 5% dividend tax rate will remain in place until December 31, 2007, and a zero percent rate in 2008. Unfortunately, these rates will "sunset" in 2009.



# TAX TIPS FOR 2006 (continued)

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- **Remember after age 70 ½ you must withdraw at least the required minimum distribution 'RMD' from your Traditional IRA every year and include this amount on your income tax return**

**New for 2006** is the option of donating your IRA withdrawal to a charity. By doing this you avoid the income tax and help your favorite charity.

Donations must be transferred directly from the IRA Trustee to the Charity

Note: if you do not take the 'RMD' you will be subject to a 50% excise tax



## TAX TIPS FOR 2006 (continued)

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➤ **Part of your social security income may be taxable;**

If  $\frac{1}{2}$  of your SS benefits + all other income (including tax exempt income) exceeds;

- \$25,000 if single
- \$32,000 if married

....the excess is taxable up to 85% of your social security income



# TAX TIPS FOR 2006 (continued)

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- **Remember life insurance proceeds you receive as a beneficiary are not taxable**

Additionally if you gave gifts to family members etc. (up to \$12,000 in 2006 per person) they are neither deductible by you ...nor counted as income to the recipient



# TAX TIPS FOR 2006 (continued)

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➤ **Deduction of Sales Tax Paid or NJ State Income Tax**

You may deduct the higher of, 'sales tax paid in 2006' or state and local income taxes paid (if you itemize)

Note: You may save sales tax receipts or use IRS Publication 600, Optional State Sales Tax Tables, to determine the amount of your sales tax deduction.

If you use the optional tables be sure to use your total income and included tax exempt income to get the highest possible deduction. You may also add the sales tax paid on a vehicle purchase to the table amount.



# TAX TIPS FOR 2006 (continued)

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➤ **Don't overlook these medical expense deductions**

1. Medicare D premiums (new for 2006)
2. Medicare B premium paid by social security
3. Medigap insurance premiums
4. Long-term care insurance premiums
5. Medical deduction pass thru by Pres Homes
6. 100% cost of Nursing Home stays
7. Medical Transportation \$.18 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.



# TAX TIPS FOR 2006 (continued)

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## ➤ **Miscellaneous Itemized Deductions**

- You can deduct the fees paid to CPA's, Financial Planners and Attorneys for services rendered that deal specifically with return preparation, audits and estate-planning tax advice. Of note, be sure to ask for an itemized bill when paying for such services so that you know how much you can deduct.
- Taxpayers sometimes also forget they can deduct the cost of subscriptions to investment newsletters and online services as a miscellaneous itemized deduction. As with fees to financial planners and attorneys, the deduction for such expenses is subject to the 2% of adjusted gross income floor.



# TAX TIPS FOR 2006 (continued)

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## ➤ **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 2005 tax return, or 90% of tax due on 2006 tax return.



# TAX TIPS FOR 2006 (continued)

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- **Donating appreciated investments (example: common stock) to charitable organizations, like the Presbyterian Homes of New Jersey Foundation, provides a double tax benefit**

**Assume:** \$10,000 of ABC stock with a cost basis of \$1,000 is donated rather than sold.

## **Tax Benefits:**

1. No income tax liability from sale of investment (avoid \$1,350 in capital gains tax, if in the 15% income tier)
2. You receive 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)



# TAX TIPS FOR 2006 (continued)

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➤ Have you ever considered the benefits of a PHNJ Foundation Charitable Gift Annuity:

1. interest income at a rate that is higher than competitive bank rates for your life
2. income that is partially tax exempt,
3. a charitable income tax deduction
4. helping a charity with it's mission

*Note: To learn more about this attractive option see Joe Claffey or Susan Cino of the Presbyterian Homes of NJ Foundation*



## TAX TIPS FOR 2006 (continued)

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- **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 2004, 2005, 2006 tax records plus the current year 2007

Note: Also be sure to maintain all investment statements and advices needed to establish the cost basis of each investment you own until it is sold. Including real estate records.



# Where to Get Assistance

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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](http://www.irs.gov)
- New Jersey 800-324-4400 (Automated), 609-292-6400 (Customer Service) or email [www.nj.gov](http://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.....

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for coming today...we look forward to assisting you with your 2006 tax preparation

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