

TAX ISSUES FOR OUR OLDER CLIENTS

Helen P O'Planick

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Age 50 to 59.5

Early retirement is possible. Just follow the rules!

Separation from service occurs in or after the year you reach age 55 (age 50 for qualified public safety employees and private sector firefighters). This is not for IRAs.

Distributions made as part of a series of substantially equal periodic payments – 72(T).

Distributions due to total and permanent disability.

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Widow/Widowers Benefits

You may be entitled to receive a survivor's benefit under the following circumstances:

At age 50 if you have a disability.

At age 60 (the benefit amount will be reduced).

At any age if you have a child under your care who is under age 16 or who became disabled before age 22.

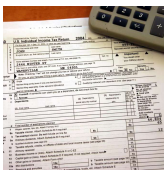
If you were widowed and remarried after age 60.

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SOCIAL SECURITY BENEFITS AND TAXATION



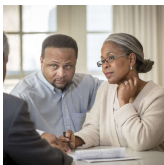
Taxation of Benefits

Social Security benefits can be partially taxable based on the recipient's combined income and filing status.



Income Thresholds

Income thresholds determine how much of the benefits are subject to federal taxes for seniors.



Financial Planning Importance

Understanding taxation rules helps seniors plan their finances and manage Social Security benefits effectively.

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Taxability of social security benefits

The base amounts have not changed over 20 years. Depending on other income, social security benefits can be taxed at up to 85%.

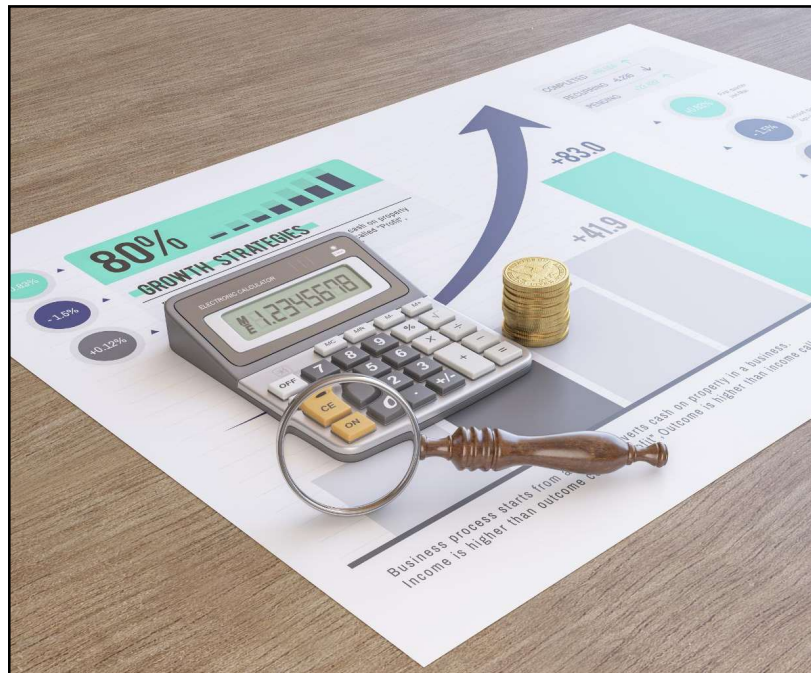
All income is used to calculate the MAGI for this calculation. Remember to include non-taxable income. Adjustments such as contributions to IRAs, HSAs; self employed health insurance and others may reduce the taxability amount.

OB3 does allow an additional deduction for seniors over the age of 65, whether or not they are collecting. Remember, they must file jointly.

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RETIREMENT ACCOUNT WITHDRAWALS

Taxable Withdrawals

Withdrawals from traditional retirement accounts are usually taxed as ordinary income by the government.

Importance of Timing

Careful timing of withdrawals can reduce tax impact and preserve retirement savings effectively.

Planning Strategies

Strategic planning helps minimize tax liabilities on retirement distributions and maximize income.

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)



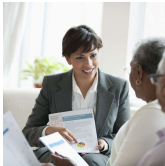
Age Requirement for RMDs

Seniors must begin taking RMDs from retirement accounts starting at age 73.



Tax Implications

RMDs increase taxable income, potentially leading to higher tax liabilities if not planned.



Planning to Manage RMDs

Proper planning is essential to manage RMDs and avoid unexpected tax burdens.

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Planning Retirement Withdrawals

Case study

Balance - \$1,113,000

Taxpayer is 73, spouse beneficiary is 72

Assume a 4% increase yearly

RMD is \$42,000

The best time to do this calculation is well before the taxpayer turns 73.

Starting withdrawals earlier may result in a lower RMD.

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OTHER SOURCES OF INCOME IN RETIREMENT

Pensions and Annuities

Pensions and annuities provide steady income streams that contribute to retirees' taxable income each year.

Rental Property Income

Income from rental properties adds to taxable income and requires careful management and reporting.

Investment Earnings

Investment returns such as dividends and capital gains also contribute to retirement taxable income.

Tax Bracket Awareness

Seniors should monitor income sources to understand impacts on tax brackets and potential tax liabilities.



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STANDARD DEDUCTION INCREASES FOR SENIORS

Higher Deduction Eligibility

Seniors aged 65 and older qualify for an increased standard deduction on their tax returns.

Taxable Income Reduction

The higher standard deduction effectively lowers taxable income for eligible seniors.

Lower Tax Liability

This deduction helps reduce the overall tax liability for senior taxpayers.

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Senior bonus deduction

This is available to all taxpayers over 65!

They do not have to collect social security

\$6,000 per qualified individual

AGI must be under \$75,000 for singles and \$150,000 for married individuals

AGI phase out ends at \$175,000 for singles and \$250,000 for married individuals

They must file jointly.

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Senior bonus deduction

This is also available for taxpayers that itemize!

Another reason to watch the AGI on the tax return!

Expires in tax year 2028

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MEDICAL EXPENSE DEDUCTIONS

Eligibility for Deduction

Medical expenses qualify for deduction only when they exceed a specific percentage of adjusted gross income.

Tax Relief Benefits

Deducting qualifying medical expenses offers significant tax relief for seniors facing high healthcare costs.

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Medical Expenses

Remember to use all qualified expenses

Activities of Daily Living

The six ADL's are eating, toileting, transferring, dressing and grooming, walking and bathing.

If your taxpayer needs help with two or more, all assisted livings costs (except personal costs) can be included as a medical deduction.

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Medical Expenses

Remember to use all qualified expenses!

Insurance

All health insurance qualifies, including long term care.
Remember LTC premiums do have limitations.

Prescription and personal use items

Insulin is also included. Remember hearing aids and batteries, eyeglasses and dental.

Employer portion of payroll taxes for healthcare aides

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MANAGING CAPITAL GAINS FROM INVESTMENTS

Capital Gains Tax Impact

Selling investments can cause capital gains taxes that reduce overall returns for investors.

Tax-Efficient Strategies

Seniors should use tax-efficient strategies to minimize capital gains and preserve their wealth.

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Municipal Bonds

These are debt instruments issued by state governments, local governments and government agencies to raise money for a variety of purposes.

When you purchase municipal bonds, you will receive interest payments in the form of coupons, and the initial capital invested will be returned at maturity.

Unlike Treasury and corporate bonds, the coupons (interest payments) you receive from municipal bonds are tax-free at the federal level. In other words, you won't pay federal taxes on them.

Also, if you purchase bonds issued by the state or municipality where you reside, you will be exempt from state or local taxes. However, if you purchase bonds issued by a state or municipality outside of your residence, only federal taxes will be exempt.

Note that this tax exemption does not apply to capital gains. If you sell municipal bonds for profit, you will still pay capital gains tax.

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Indexed universal life insurance

These are insurance policies that tie your earnings to the performance of a given stock index, while guaranteeing the protection of the principal.

In other words, when the market is down, there is a guarantee that your principal cannot lose value, and when the market is up, you will earn a return equal to the index's rate of return minus a given percentage. For example, if the index's rate of return is 10% for a year, you may get 8%. The 2% deducted covers the principal protection offered on the downside.

These insurance policies also have tax benefits. The cash value grows tax-free, and withdrawals up to the total amount of premiums paid are tax-free.

Also, you can borrow against the policy's cash value without paying taxes. You may also not repay the loan during your lifetime. Any unpaid balance will be deducted from the death benefit. Interestingly, even death benefits to beneficiaries are tax-free.

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Health savings accounts

In an age where health care costs in retirement are rising, many are once again rediscovering the importance of HSAs. There are three ways to enjoy tax benefits from HSAs:

You can contribute pre-tax income to reduce your taxable income, up to age 65.

Your contributions to the account grow tax-free.

Qualified withdrawals from the account (for Medicare premiums, prescription drugs, medical care, co-payments, vision care, dental care, psychiatric treatment, etc.) are also tax-free.

Non-qualified withdrawals are taxed like IRA withdrawals.

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ROTH Conversions

Depending on income, it may benefit our clients to convert some retirement funds to ROTH accounts.

This does not affect the RMD and you cannot roll the RMD into the ROTH.

Watch out for taxable social security!

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Tax-Exempt mutual funds and ETFs

Some mutual funds and exchange-traded funds (ETFs) aim to minimize the tax liability of investors by purchasing tax-exempt securities like municipal bonds.

Also, ETFs seek to be tax-efficient by using an in-kind redemption process (investors receive securities instead of cash) to avoid triggering capital gains distributions and paying capital gain taxes.

Thus, if tax minimization is a major factor, you may prefer ETFs to mutual funds.

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NAVIGATING STATE AND LOCAL TAX DIFFERENCES

Varied Tax Rules

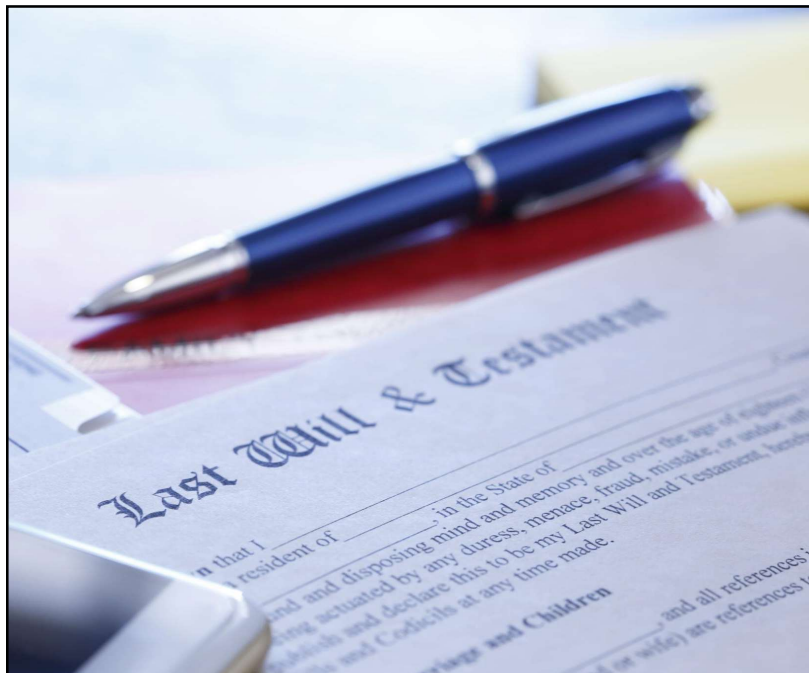
State and local tax regulations differ significantly across regions, impacting tax liabilities.

Importance for Seniors

Seniors must understand tax implications based on residence to avoid unexpected tax burdens.

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PLANNING FOR INHERITANCE AND ESTATE TAXES

Estate Tax Thresholds

Knowing estate tax thresholds helps in planning to minimize tax liabilities for heirs and beneficiaries.

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2025 Inheritance Tax Amounts

For 2025, the federal estate tax exemption is \$13.99 million per individual. This means an individual can pass on up to this amount without incurring any federal estate taxes.

For married couples, the exemption doubles to \$27.98 million, provided proper planning and paperwork for portability are in place. If your estate is valued below these amounts, no federal estate tax is due.

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Portability

The DSUE is meant to benefit the surviving spouse. Rather than the unused exemption being restricted from use, it can be transferred/ported to the surviving spouse. The exemption is available if the deceased spouse's estate did not use all of the exemption.

To use the exclusion, an estate tax return (Form 706) must be filed within nine months after the decedent's date of death. On the return is a portability election. You have to check a box to elect out of it (Part 6, Section A). So by default, the portability election is available without selecting anything.

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Portability

IRS and the Treasury Department determined that an estate not required to file an estate tax return would be allowed to make the portability election on or before the fifth anniversary of the taxpayer's death.

The executor of the estate must remember to complete and properly prepare Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, within five years of the taxpayer's death. In addition, the executor of the estate must state at the top of Form 706 that the return is "Filed Pursuant to Revenue Procedure 2022-32 to Elect Portability under section 2010 (c)(5)(a)" to fulfill portability requirements.

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GIFTING STRATEGIES AND TAX IMPLICATIONS

Annual Gift Limits

Making gifts within annual limits helps reduce the size of an estate and may lower potential taxes owed.

Gift Tax Awareness

Seniors should understand gift tax rules to comply with regulations and avoid unexpected tax liabilities.

Reporting Requirements

Proper reporting of gifts is essential to meet legal obligations and maintain transparent financial records.

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Gift Tax

The 2025 gift exclusion is \$19,000 per taxpayer to an individual.

This amount includes all gifts of present interest in a calendar year.

Gifts must be completed by December 31, 2025.

Gifts of future interest require a gift tax return from dollar one.

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Basis

To figure out the basis of property received as a gift, you must know three amounts:

- The donor's adjusted basis just before the donor made the gift.

- The fair market value (FMV) of the property at the time the donor made the gift.

- The amount of any gift tax paid on the gift

If the FMV of the property at the time the donor made the gift is less than the donor's adjusted basis, your adjusted basis depends on whether you have a gain or loss when you dispose of the property.

- Your adjusted basis for figuring a gain is the donor's adjusted basis just before the donor made the gift, increased or decreased by any required adjustments to basis while you held the property.

- Your adjusted basis for figuring a loss is the FMV of the property at the time the donor made the gift, increased or decreased by any required adjustments to basis while you held the property.

- If you use the donor's adjusted basis for figuring a gain and get a loss, and then use the FMV for figuring a loss and get a gain, you have neither a gain nor loss on the sale or disposition of the property.

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Basis

If the FMV of the property at the time the donor made the gift is equal to or greater than the donor's adjusted basis, your adjusted basis is the donor's adjusted basis just before the donor made the gift, increased or decreased by any required adjustments to basis while you held the property.

If the donor paid a gift tax on the gift and made the gift after 1976, increase your basis by the gift tax paid on the net increase in value.

Appreciated items may not be the best gift ever!

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Gifting Homes

Clients like to gift their homes to their relatives so that they can qualify for Medicaid.

Client retains the right to use the home.

The deed must be transferred.

Gift tax returns must be filed.

Relative gets the basis, which is probably fairly low.

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Life Estate or Implied Life Estate

The agreement, verbal or written, allows client to remain in home until death.

The home cannot be sold until the death of the taxpayer.

If sold before death, the relatives will have taxable income unless they qualify for the exclusion.

Avoids probate, but maybe not the best tax strategy.

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This presentation does not make you qualified to do tax planning for your clients, but makes you aware of the issues that our senior taxpayers may have.

If you are interested, there is a certification for a Certified Senior Advisor.

This includes all issues our senior having, including illness and medication.

See CSA.US

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