Top Seven Senior Tax Breaks

We’ve compiled a list of the best tax breaks and benefits for seniors over the age of 50.

As we all grow older, it is often a shock to realize how little money we actually have stored away for our golden years. In order to hang onto this money as best as you can, here are the top seven senior tax breaks.

Medical and Dental Expenses

There are growing concerns that one of the biggest costs to seniors and retirees over the age of 50 in the coming years is going to be healthcare. Perhaps as much as 30% of our income will be going to healthcare premiums, prescription drugs and other expenses related to our health. However, for some, many of these expenses are tax deductible.

If you are a person that itemizes your tax deductions (meaning you do not take the standard deduction), you may be able to deduct your out-of-pocket medical expenses on your income taxes on a Schedule A. However, this is not to say that you can deduct all of your medical and dental expenses. Instead, you are only allowed to deduct any expenses that exceed 7.5% of your adjusted gross income (AGI). To clarify this, it is helpful to look at an example.

Suppose that your adjusted gross income for 2008 was $150,000 and that you have receipts for medical and dental expenses totaling $15,000. You would only be able to deduct $3750 from your taxes, which is the amount that your medical and dental expenses exceed 7.5% of your AGI. 7.5% of $150,000 = $11,250, and $15,000 - $11,250 = $3750.

Home Sale

It may be that you would like to sell your home once you retire because you want to move, perhaps to a warmer climate with more golf courses! Your home may be worth much more now than it was when you bought it, meaning you could have substantial equity built up in your home. If you lived in your home for at least two of the five years prior to selling it, you may not have to pay taxes on any profit you realize from its sale. The tax laws allow a single filer to claim up to $250,000 in profit on a home sale with no taxes, and up to $500,000 for a married couple filing together.

Contributions to Your Retirement

Even if you are retired or semi-retired, this does not preclude you from making tax-deductible contributions to your retirement accounts, like IRAs and 401(k)s. This is perhaps one of the best senior tax breaks available, as you may need to live off of your retirement funds. The tax laws are written in such a way that people over 50 have higher limits on what they can contribute to retirement accounts versus those under 50. As an example, a married couple over 50 can contribute as much as $12,000 to an IRA (for the 2009 tax year) and deduct that amount from their income tax, while a married couple under 50 can only contribute up to $10,000.

In addition to contributions to IRA accounts, you can also make contributions to Roth IRA accounts. Although you will pay taxes on the money you contribute to such an account, you will not pay taxes on money that you withdraw from it. This means that any interest that the money gains during its time in the Roth IRA account is tax-free.

Expenses Related to Investments

Perhaps the best way to get money after you reach senior status or are retired is in the form of interest, dividends or capital gains on investments. This income is taxed at a much lower rate, typically 15%, and is not subject to taxes for Social Security or Medicare.

Additionally, if you have expenses related to your investments (like costs related to investment advice) that exceed 2% of your AGI, you may be able to include these in your other itemized deductions. These expenses could include things like:
• Fees for a safe deposit box
• Accounting fees
• Attorney fees
• Fees for subscriptions to investment newsletters
• Fees for online broking
• Purchase of home computers for investment needs
• Fees paid to financial planners, and
• Fees you pay to have your investment income collected.

However, you cannot include the fee you pay to brokers or agents to acquire investment property (stocks or bonds) in your deduction. Instead, this cost is included in the cost of the property and you will recoup it when you sell the property.

**Business expenses**

If you own a business when you retire, or plan on starting your own business, you may be able to claim business expenses as one of your senior tax breaks. If you have a business, you may be able to deduct some or all of your expenses related to the business as long as the expenses are necessary and reasonable. Typical business expenses include money spent on travel, business equipment, and the costs of an office, whether it is at home or outside in an office building.

**Charitable Contributions**

When people retire, they often have time to reflect and think about just who it was that really helped out during their working life. This often leads retirees and seniors to give back to the community in the form of charitable contributions. These contributions are deductible as an itemized deduction. However, there are limits on these deductions.

Cash contributions that are charitable in nature can only be deducted up to an amount equal to 50% of your AGI. In addition, if you donate property (other than cash) to a charitable organization, you can generally deduct the fair market value of the property. However, if the property that you want to donate (like a house) has appreciated in value since you first bought it, you will probably have to make some adjustments.

Lastly, if you make a contribution of a piece of property that the charitable organization will likely sell off (like a car or a boat), then your deduction is limited by the gross proceeds from the sale of the item. This rule applies if the claimed value of the donation is more than $500.

**Standard deduction**

The standard deduction is the tax deduction you take if you do not itemize your deductions. If you are 65 at the end of the tax year (December 31st), then you may take a higher standard deduction. In addition, if you are blind (you do not have corrected vision of at least 20/20 or have an extreme limitation in your field of vision), you may be able to claim a higher standard deduction.

For each criteria met, a married person adds $1,050 (2009 tax year) to their standard deduction, while a single person adds $1,300.

To clarify, some examples are helpful.

Taxpayer is 70 years old and single. His standard deduction is $5,350 (standard) + $1,300 (over 65) = $6,650

Married couple, Husband is 70, Wife is 68, Husband is blind. Standard deduction is: $10,700 (standard) + $1,050 (Husband over 65), + $1,050 (Wife over 65) + $1,050 (Husband’s blindness) = $13,850.
FINDLAW.COM EMPOWERS PEOPLE WITH TRUSTED, TIMELY AND INTELLIGENT LEGAL INFORMATION

BLOGS – FindLaw Blogs present timely news that has real-life implications, deliver important information and discuss law-related entertainment.

FINDLAW ANSWERS – A vibrant, interactive online community where everyday people can ask legal questions and get real-time answers from legal professionals and others with similar experiences.

NEWS & NEWSLETTERS – Updated throughout the day and night and covering a wide range of legal topics, FindLaw.com’s News page presents current legal news, keeping people informed and educated.

FIND A LAWYER – An easy-to-search database of more than one million lawyers and law firms. It provides detailed information, enabling people to contact a qualified lawyer when they are ready.

Connect With Us

FindLaw.com has an entire social media team dedicated to providing our users with as many options as possible to join, participate in, and learn from the FindLaw community. Some of the social key channels are the following:

FindLaw for Consumers on Facebook
Making the law easy to access with interactive legal updates aimed at starting conversations, informing followers of their legal rights and providing a forum for questions and resources

@FindLawConsumer on Twitter
Tweeting interesting, entertaining and informative legal news everyday

FINDLAW.COM EMPOWERS PEOPLE WITH TRUSTED, TIMELY AND INTELLIGENT LEGAL INFORMATION

Have a legal question? Need to find an affordable, qualified attorney?

Protect yourself, your family or your business with a legal plan or form from LegalStreet

www.LEGALSTREET.com

Copyright © 2013 FindLaw, a Thomson Reuters business. All rights reserved. The information contained in this article is for informational purposes only and does not constitute legal advice. The use and distribution of this article is subject to the Creative Commons BY-NC-ND license, which can be viewed at http://creativecommons.org/licenses/by-nc-nd/3.0/. You must attribute the article by providing the title of the article, FindLaw copyright notice and link to the original work. You may not use the article for commercial purposes and you may not alter or transform this article in any way.