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Tax Considerations for Seniors - General Outline

This outline illustrates some of the areas we discuss with our clients who want help with tax and estate planning. Please note areas of interest to you and call us to see how we may be of service.

I) Choosing a Tax Return Preparer

- A) Paid tax preparers must sign the returns AND be one of the following
 - 1) Licensed professionals - CPA's and Attorneys can represent clients
 - 2) Enrolled agents - is an IRS credential and can represent clients
 - 3) Registered tax preparers, started in 2010 and repealed in 2012, can NOT represent clients
- B) Doing your own taxes, depends on complexity of your activity and if you need advice
- C) What other services does the preparer offer, tax planning, responding to tax notices, etc.

II) Income Taxes for Individuals (form 1040)

- A) Filing requirements and status
- B) What income and expenses to report
- C) Using the standard deduction or itemizing deductions
- D) Exemptions and dependents
- E) Withholding taxes or paying estimated taxes

III) Income Taxes for Estates and Trusts (form 1041)

- A) Filing requirements, due dates, and choosing a year end
- B) What income and expenses must be reported
- C) How these income taxes are calculated and at what rates
- D) What taxable income is passed through to heirs and beneficiaries

IV) Estate and Gift Taxes (form 706/709)

- A) How to avoid these taxes, planning ahead is key
- B) Filing requirements, due dates, and changing tax laws
- C) Cost basis of inherited or gifted property and income taxes to heirs
- D) How are these taxes calculated, annual exemption and life-time exclusion

V) Special Areas of Interest and Ideas to Reduce Taxes

- A) How are Social Security benefits taxed, see the IRS worksheet
- B) Taxes on IRA distributions and making taxable ROTH conversions
- C) Deductions for medical and Medicare insurance and for medical expenses
- D) Deferring income to future years when your tax bracket may be lower
- E) Take advantage of Federal and State tax credits, see related tax references

VI) Get Help, Be Proactive, and Seek Advice

- A) Plan ahead each year, many more options are available if you act before year end
- B) Study the various free tax references, check for what affects your situation
- C) Get professional advice, integrate tax planning with your estate and financial planning

Tax Considerations for Seniors - Details to Consider

I) Choosing a Tax Return Preparer

- A) Paid tax preparers must sign the tax returns AND be one of the following
 - Licensed professionals - CPA's and Attorneys can represent clients
 - Enrolled agents - is an IRS credential and can represent clients
 - Registered tax preparers, voluntary IRS program, can NOT represent clients

- B) Doing your own taxes, depends on complexity of your activity and if you need advice
 - Do your own taxes only if you are confident you understand all areas that affect you
 - One option is to prepare your own returns and have someone review it, note problems

- C) What services does the preparer offer, tax prep, tax planning, responding to tax notices
 - Low fees usually means you only get tax returns done but very little advice, if any
 - Paying more to get additional advice may help to reduce taxes every year
 - Find a tax preparer who fits, match their experience with your activity, check references
 - Is the person there year round, can you get help with any tax notices when you need it

II) Income Taxes for Individuals (form 1040)

- A) Filing requirements and status
 - Determines who must file each year and the related tax rates to use
 - Read instructions, see my tax data sheet, get IRS publications (such as pub 17), etc.

- B) What income and expenses to report
 - US citizens report all worldwide income
 - Most income is reported to the IRS for you, so it's easy to track income
 - Keep track of your deductions, or business expenses if self-employed, rentals, etc.
 - Keep good records for cost basis of investments and substantiate all deductions

- C) Using the standard deduction or itemizing deductions
 - You get the higher of the standard deduction amount or your actual itemized deductions
 - The amount of the standard deduction depends on tax filing status
 - Refer to my tax data sheet, see IRS publications, etc.

- D) Exemptions and dependents
 - Fixed dollar deduction for each exemption (yourself & spouse) and dependent (others)
 - The amount of tax savings depends on your tax bracket
 - Refer to IRS publications to see who qualifies as a dependent

- E) Withholding taxes or paying estimated taxes
 - Pay enough tax during the year to avoid underpayment penalty
 - Withholding is convenient, estimated tax has due dates to remember
 - Taxes can be withheld from wages, pensions, Social Security benefits, IRA's, etc.
 - Withholding or estimated payments do not reflect the actual amount of tax

III) Income Taxes for Estates and Trusts (form 1041) (this is not “estate tax”)

- A) Filing requirements, due dates, and choosing a year end
- Filing requirements based on type of entity and gross income
 - Year end for a new estate can be fiscal year, opportunity to affect heirs’ personal taxes
 - Year end for all trusts must be December 31, unless terminated sooner
 - Due date for trusts and estates is 15th of the fourth month, even if terminated earlier
- B) What income and expenses must be reported
- Similar to activity reported by individuals
 - Very important to track beginning date of new estate, this is the date of death (DOD)
 - Be sure to use fair market value (FMV) at DOD for all investments in the “taxable” estate
- C) How these income taxes are calculated and at what rates, if income is not distributed
- Trusts & estates have five tax brackets that are very compressed, no 10% or 35% brackets
 - The 39.6% Federal tax bracket starts at \$12,300 of taxable income for 2015
 - The 20% capital gains tax rate applies if taxable income exceeds \$12,300 for 2015
 - The 3.8% Medicare tax on investment income may also apply
- D) What taxable income is passed through to heirs and beneficiaries
- Trust law income may be different than distributable net income (DNI)
 - Subject is complicated and unique to each situation, best to get professional help

IV) Estate and Gift Taxes (form 706/709) (this is not “income tax”)

- A) How to avoid these taxes, planning ahead is key
- You need a basic understanding of the strategy and knowledge of the terms used
 - The Probate estate is NOT the same as the TAXABLE estate
 - Know when to elect portability for the unused portion of a spouse’s estate exclusion
 - Refer to my Estate Planning Outline and other tax information, see links on last page
- B) Filing requirements, due dates, and changing tax laws
- Estate tax returns due nine months from DOD, if estate is over exclusion amount
 - Gift tax return due April 15th following the year of the gifts, if over allowable amount
- B) Cost basis of inherited or gifted property and income taxes to heirs
- Inherited property gets DOD value as the heir’s basis, includes revocable living trusts
 - Gifted property carries the donors original cost basis, NOT the value at the time of gift
 - Basis affects the amount of gain subject to INCOME taxes if the heirs sell the property
 - Income in Respect of a Decedent, such as an IRA account, gets no DOD value
- C) How are these taxes calculated, annual exemptions, and life time exclusion
- Estate & gift taxes are excise taxes based on the value of property transferred
 - Gift tax for 2015 has an annual exemption of \$14,000, may be adjusted for inflation
 - Estate tax for 2015 has a lifetime exclusion of \$5,430,000, adjusted for inflation
 - Tax rates are based on the IRS table and each state may have separate tax rates
 - Congress is expected to change the exclusion and related estate tax rates

V) Special Areas of Interest and Ideas to Reduce Taxes

- A) Learn how are Social Security benefits are taxed
- Amount taxable is based on your other income, see IRS worksheet
 - Plan the amounts of other income to minimize how much Social Security is taxable
- B) Know the taxes on taking IRA distributions and doing ROTH conversions
- IRA distributions are fully taxable if no "BASIS" in the IRA, includes inherited IRA's
 - Basis in IRA's reflect only the non-deductible amounts contributed, including ROTH
 - IRA distributions increase total income and makes more Social Security income taxable
 - Do NOT delay the first required IRA distribution to April 1st of the year after 70 1/2
 - ROTH conversions may make more Social Security income taxable, do the calculations.
 - Take the Colorado subtraction from income for distributions from any inherited IRA's
- C) Take deductions for medical and Medicare insurance and medical expenses
- Deduct only if itemize deductions (unless self-employed) in excess of 10 - 7.5% of AGI
 - Use employer pre-tax medical accounts when available, must estimate annual expenses
 - Medicare premiums withheld from Social Security are deductible as medical insurance
 - The medical portion of nursing home costs is deductible as medical expenses
- D) Plan the timing income and deductions to save more taxes
- Spread out income, take only RMD's from IRA's, plan ahead for large items
 - Bunch actual itemized deductions and alternate with standard deduction in other years
 - Pay two years of property taxes in the same year, every other year
 - Make two years of charitable donations in the same year, every other year
 - Cannot deduct prepayments, deduct expenses already incurred in the year actually paid
- E) Check to see what tax credits apply each year
- See if Earned Income Credit or Saver's Credits applies on your Federal return
 - Check for property tax, rent, or energy credits apply on Federal return
 - Take a deduction on the Colorado return for charitable donations, even if don't itemize
 - Check for property tax reduction, see if the Colorado Homestead Exemption applies
 - Tax reference to use include IRS publications and Colorado publications (called FYI's)

VI) Get Help, Be Proactive, and Seek Advice

- A) Plan ahead each year, many more options are available before year end
- B) Study the various free tax references, check for what affects your situation
- C) Get professional advice, integrate tax planning with your estate and financial planning

The interaction of income tax laws, social benefit programs, managing investments, and estate planning are very complicated which is why we suggest that you get help from a team of professionals.

Please visit our website at www.Online-CPA.com for more information about our services and strategies that may help to reduce your taxes.

Thank you

Brad Borncamp, CPA, CVA, CFP

Suggested Internet Links for More Information

Brad Borncamp, CPA, LLC - information on various tax and accounting topics

www.Online-CPA.com

Internal Revenue Service (IRS) - for federal tax information

www.IRS.gov

Social Security Administration - for information about Social Security

www.SSA.gov

United States Treasury - for information about Treasury bond rates, etc.

www.Treasury.gov

Colorado Department of Revenue - for Colorado income tax information

www.Colorado.gov/revenue

Colorado Department of Regulatory Agencies - to check the license of a professional

www.Colorado.gov/DORA/license

AARP - for information on various topics affecting seniors

www.AARP.org