Tax Tips: Starting retirement off right at any age

Retirement is an exciting time. After a lifetime of hard work, you’re finally ready to focus on family, travel and hobbies. But just because the work stops doesn’t mean taxes do. When your income is fixed, taxes can take on a whole new hue. Whether you’re retiring now or simply thinking about your future, here are some things you should know about taxes and retirement.

To tax now or later?

As you choose your retirement vehicles, you'll find you have options as to when you pay the taxes. Some contributions are made with after-tax dollars and provide no immediate tax benefit. When the time comes for you to draw down from these accounts, your distributions are tax-free.

Other vehicles tax distributions as regular income or, in some cases, as capital gains. Your CPA will help you plan strategies for choosing your vehicles and for which to begin drawing down first.

What are some of my options?

A **Roth IRA** (Individual Retirement Account) is a special account that allows tax-free growth and tax-free distributions once you've reached the appropriate retirement age, assuming you've held the account for at least five years. You make contributions with funds you've already paid taxes on. Deposits are limited to $5,500 annually or $6,500 if you're over age 50.

Roth IRA contributions are subject to income limitations, meaning some people earn too much money to qualify. Your CPA can help you determine if you qualify and can also help you convert a traditional IRA to a Roth IRA if this is a good strategy for you.

A **Traditional IRA** may provide an income tax deduction when the contribution is made. The distributions are generally subject to normal income taxes. By April 1 of the year following the year in which you turn 70½, you must take a required minimum distribution (RMD). Each subsequent year will require you to take the RMD by Dec. 31.

This amount is based on your account balance and your life expectancy. Your tax exposure will vary according to your circumstances, including whether you choose to withdraw more than the RMD annually. In these cases, you'll be taxed according to your regular income bracket.

As you consider budgeting for your retirement, don't forget that certain taxes don't discriminate based on employment. These include property taxes, sales taxes, special assessments from your city or state, etc. Adding these up and making sure you set a proportional amount aside monthly will make paying them much less painful.

Stocks and other traditional investments don't tax any differently in retirement than they do in your working years. If your investments offer dividends that pay periodically, these are treated as investment income that may be eligible for a preferred rate. Otherwise, they'll be taxed as income, potentially subject to ordinary rates.

If you sell securities, they'll be taxed as capital gains if they've increased in value. Exceeding certain thresholds exposes investors to an additional 3.8% tax above regular capital gains. Similarly, you may be able to write losses off — this could be a useful strategy depending on your situation. Your CPA can help you decide.

Deductibility

In retirement, it's important to stretch your savings as far as you can. Have a conversation with your CPA about reviewing your available deductions to learn if they exceed the standard deduction. Some of these might become more relevant in your retirement.

Selling your home in retirement is common. Many retired people find their current home is too large, lacks necessary features or isn't laid out to accommodate their mobility needs. Others find they can sell their current home for more than a suitable replacement home will cost, providing them with extra income in their retirement.

While your CPA will help review your needs and make suggestions, there are a few items to keep in mind when considering selling your home.

- Is it your primary residence?
- If selling a primary residence, have you lived in the home for more than two of the five years before your sale? Additionally, have you owned the home for two of the past five years?
- Did you sell another property within the past two years for which you claimed a capital gains exclusion?

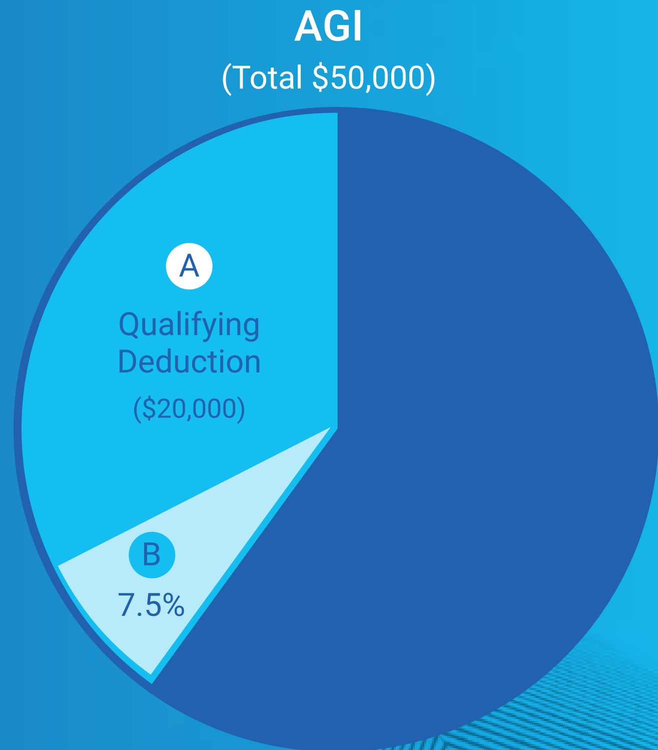
Answers to these questions and others will help your CPA determine if you'll be exposed to any taxes when selling your home. In general, single individuals may exclude up to $250,000 gain on sale of a primary qualifying residence, while married couples filing jointly may exclude up to a $500,000 gain.

Fast facts: Health care expenses

Health care expenses can soar in retirement, making an itemized return preferable to taking the standard deduction. If your unreimbursed qualifying medical expenses exceed 7.5% of your adjusted gross income (AGI), you can deduct the amount of the expenses that exceed the 7.5% level.

Example: $50,000 AGI

- **A** $20,000 unreimbursed qualifying medical expenses
- **B** $16,250 qualifying deduction ($3,750 of expenses represent 7.5%)



If you have $50,000 AGI and your unreimbursed qualifying medical expenses for the year are $20,000, you can deduct $16,250 ($3,750 of the expenses represents the 7.5% of your AGI that does not qualify and is therefore subtracted from the qualifying deduction). Your standard deduction will vary depending on your filing status, so your CPA will be your best resource for determining if itemization is a good idea. Major illnesses, chronic conditions and hospitalization can add up quickly.

You can help by keeping careful track of what unreimbursed qualifying medical expenses you have during the year. Beginning on Jan. 1, 2019, these qualifying expenses must exceed 10% of AGI.

Losses

Certain losses are deductible. Casualty and theft losses have certain restrictions, including that they must exceed $100, be more than 10% of AGI and cannot have been reimbursed by insurance. These losses also must be attributable to a federally declared disaster.

Losses on the sale of investments are also deductible, but there are limits that your CPA can discuss with you. Strictly speaking, there can be some very good reasons to claim losses on your return, so be certain you make your CPA aware when you have sold any holdings at a loss.

If you enjoy gambling, these losses are also deductible, but only to the extent that they offset winnings during the same tax year. For 2018, any gambling-related expense is deductible in this fashion. This includes travel, lodging and food, for example.

Gifts

One of the pleasures of retirement is sharing what you have accumulated with loved ones. It's wise to be familiar with the limits on gifts so you're aware of what taxes you might incur.

$15,000

For 2018, you may give any person up to $15,000 annually without tax consequences. The $15,000 exclusion is per person, so if you're married, both you and your spouse can each give the same person $15,000 in any one year.

$11.18 million

The lifetime estate and gift tax exemption is $11.18 million per person.

Tax Free

Any gift transfers between spouses are always tax-free.

$15,000

Gifts to anyone other than your spouse that exceed the $15,000 annual limit will reduce the $11.18 million estate exclusion rather than being taxed currently. This means that, for the vast majority of gifts, you'll never owe any actual tax. However, if your gift's value to a single recipient who isn't your spouse exceeds $15,000 for a single year, you'll be required to file a gift tax return. Your CPA can provide you with additional guidance in your specific situation.

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