THE CONSUMER'S GUIDE TO TAXES IN RETIREMENT

INTRODUCTION

Life after retirement is full of changes and challenges, not the least of which is trying to understand how taxes will impact your income and deductions in retirement. Many wonder how big their tax bill will be in retirement and how long the average retirement will last, while others want to know if their Social Security benefits will be subject to taxation. One of the most important considerations is to structure payments from taxable retirement plans so that the payments don't increase your tax burden, but that's easier said than done. Then there are the questions you have never had to face before like when you should apply for Social Security benefits and Medicare, what other insurance will you need and will it be tax deductible, how should you structure the sale of your investment assets to cause the lowest possible increase in taxes, and what is the best way to make gifts to the people and things you love.

This booklet is designed to help you understand what income will be taxable after you have left your regular job life to begin the next phase of your life. You will find answers to questions regarding the most common tax deductions available to you in retirement, how to take tax efficient withdrawals from your retirement portfolio and how to take advantage of the Internal Revenue Code to help you live these next years to the fullest. Some of the more puzzling rules relating to Social Security like the Hold-harmless Provision will be explained so you can understand how it might impact you. After retirement, everything changes, and it isn't always simpler. This booklet will provide you with tips and charts that help you save money and make smarter decisions in retirement.

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CHAPTER 1-INCOME IN RETIREMENT

After retirement, your finances change. You will no longer receive a paycheck and will start receiving income from your retirement accounts and other sources of income such as Social Security. Because your income has changed, it is highly likely that your tax bracket has also changed. It is important to take note of these changes so you will be prepared to leverage any tax benefits that come your way in retirement. After all, your retirement is likely to last a long time. The average healthy retired couple is expected to have at least one of the two live to age 91. That is roughly a 30-year retirement plan. The more you know about income, deductions and taxes in retirement, the better prepared you will be to successfully navigate a 30-year retirement. Let's take a look at the most common sources of income in retirement and review how those income sources are taxed.

SOCIAL SECURITY

If you were born after 1929 and worked at a job where you contributed to the Social Security system for at least 40 quarters, you may begin receiving Social Security benefits at the age of 62 or later. The amount you receive will depend on how long you contributed to Social Security, how much money you earned over the years you were paying in and how old you are when you start receiving benefits. Apply for benefits about three months before you want your benefits to start. If you're not ready to retire, but are thinking about doing so soon, visit Social Security's website to use a convenient and informative retirement planner at **www.socialsecurity.gov/retire.** You can apply for benefits 3 months before age 62 if you want to begin receiving benefits at age 62. Or you can choose to wait to apply until you reach your full retirement age.

When is Your Full Retirement Age?	
If you were born in:	**Your full retirement age is:**
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67
ssa, Retirement Planner: Full Retirement age, 2016.	

If you take your Social Security benefits early, you will receive less than 100% of the benefit due at your full retirement age.

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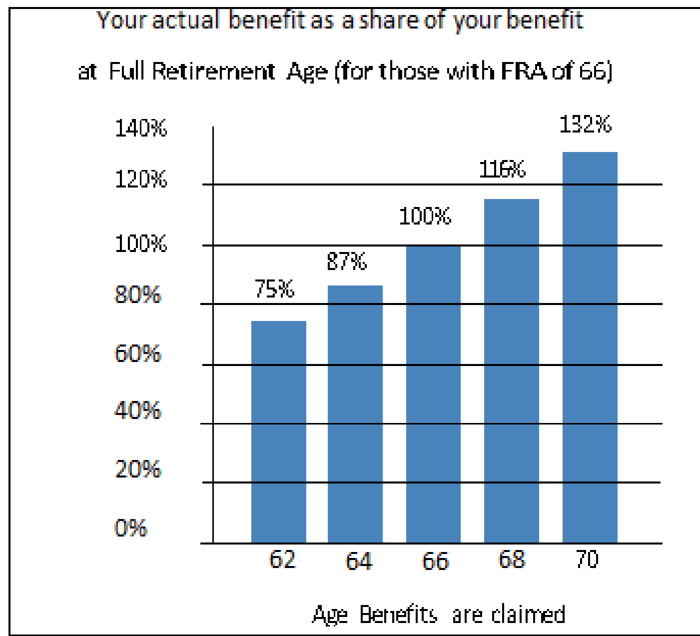
Social Security benefits are reduced if you claim them before your full retirement age.



WILL YOUR SOCIAL SECURITY BENEFIT BE TAXABLE?

Social Security benefits may be subject to income tax if your total income is above $32,000 if you are married filing a joint return, or $25,000 if you are single. The way to determine how much of your Social Security benefits will be taxable starts with defining "provisional income." Provisional income is adjusted gross income (not including Social Security) plus 50% of your benefits plus any tax-free interest from municipal bonds. If that income is between $25,000 and $34,000 on a single return or between $32,000 and $44,000 on a joint return, up to 50% of your benefits can be taxed. The rest is tax-free. If your provisional income exceeds those brackets, then 85% of your benefits can be taxed. The good news is you can never be taxed on more than 85% of your benefits. For more information on calculating the amount of Social Security subject to income tax, see the **IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*** Worksheet A provides a quick way to check if your benefits may be taxable.

WHAT'S THE STATUS OF THE SOCIAL SECURITY PROGRAM?

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. Over the Social Security program's 80-year history, it has collected roughly $19.0 trillion and paid out $16.1 trillion, leaving asset reserves for more than $2.8 trillion at the end of 2015 in its two trust funds. The combined funds satisfy the Trustees' test of short range (ten year) close actuarial balance. The Trustees project that the combined fund asset reserves at the beginning of each year will exceed that year's projected cost through 2028. The Trustees project that the combined trust funds will be depleted in 2034. Thereafter, scheduled tax income is projected to be sufficient to pay about three quarters of scheduled benefit through the end of the projection period

in 2090. The Trustees suggest that lawmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare. They stress that lawmakers should address these financial challenges as soon as possible. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare.

What this means is that your benefits are safe for now, but let's hope our lawmakers begin to tackle the problem of long-range Social Security and Medicare funding soon.

CIVIL SERVICE RETIREMENT BENEFITS

Up until 1984, employment by the Federal government was covered under the Civil Service Retirement System (CSRS) and not by Social Security. If you worked for a Federal agency during those years, you did not pay Social Security tax on your earnings and those earnings are not shown on your record.

In 1984, a second retirement system—the Federal Employees Retirements System, or FERS—was introduced. People who began working for the Federal government in 1984 or later are covered by FERS instead of CSRS. Also, some workers who had been covered by the CSRS program chose to switch to the FERS program when it became available. Work under FERS **is covered** by Social Security.

If you stayed under the CSRS program after 1983, you still are not covered by Social Security. However, **you are covered under the Medicare program** because you pay Medicare taxes on your Federal earnings. Once you have earned 40 Medicare quarters of coverage, you are eligible for premium free Medicare Part A (Hospital Insurance).

If you work for a federal, state or local government agency, a nonprofit organization or in another country, you may be eligible for a pension based on earnings not covered by Social Security. A pension based on earnings not covered by Social Security can affect the amount of your Social Security benefit.

A provision called the Windfall Elimination Provision can affect you when you earn a pension from an employer who didn't withhold Social Security taxes and you qualify for Social Security retirement or disability benefits from work in other jobs for which you did pay taxes. The Windfall Elimination Provision can apply if:

* **You reached age 62 after 1985; or**
* **You became disabled after 1985; and**
* **You first became eligible for a monthly pension based on work where you didn't pay Social Security taxes after 1985.**

This rule applies even if you're still working. This provision also affects Social Security benefits for people who performed federal service under the Civil Service Retirement System (CSRS) after 1956. Social Security benefit amounts won't be reduced if you performed federal service under a system such as the Federal Employees' Retirement (FERS). Social Security taxes are withheld for workers under FERS. For additional information on how your benefits are impacted, go to the Social Security Retirement Planner website at https://www.ssa.gov/ planners/retire/wep.html

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INVESTMENT INCOME

If you have been fortunate enough to build an investment portfolio separate from your retirement accounts, the income generated by the portfolio will be taxed at a variety of income tax rates. Interest generated from taxable bonds, notes, bills and certificates of deposit or savings accounts will be taxed as ordinary income tax rates. Dividends are taxed at 0% to 20%, depending on your marginal tax bracket. When the earnings from your portfolio aren't quite enough, you might have to sell some of your portfolio. Profits from the sale of taxable assets such as stocks, bonds, mutual funds and real estate are subject to capital gains tax and the rate depends on how long you held the assets. For assets held one year or less, the profits are taxed as ordinary income tax rates. For assets held greater than one year, the profits are taxed at long-term capital gain rates from 0% to 20%, depending on your marginal tax bracket.

If the sale of real estate includes your home, generally you will be able to exclude up to $500,000 of gain when you sell your home as long as you and your spouse have owned and lived in the home for at least two out of the last five years. If you are single, your exclusion is limited to $250,000. For more information about selling your home and computing the appropriate gain, consult the **IRS Publication 523, *Selling Your Home.***

RENTAL INCOME

Rental property can provide extra income during retirement plus provide significant tax benefits. While you have to declare the rent as income, you get to deduct the costs of maintenance, utilities, repairs, insurance, mortgage interest and real estate taxes. You also get to take a special deduction for the ordinary wear and tear on the property known as depreciation. Depreciation allows you to write off a portion of your investment each year.
Based on the assigned useful life of that property. Depreciation deductions can run into the thousands of dollars and you can use this deduction to offset the rent you receive as well as other income.

BUSINESS AND SUPPLEMENTAL INCOME

Often, retirement provides many people with the time and opportunity to start their own business or start new careers. If you are one of those entrepreneurial souls, your business income minus business expenses will be subject to ordinary income tax. You may be required to pay Social Security and Medicare taxes for the earnings from your business. Also keep in mind that this business income may impact your Social Security benefits, both in terms of how much you receive and how much will be subject to income tax. If you are receiving Social Security benefits and you have not yet reached your full retirement age, your Social Security benefits can be reduced by earnings you receive in excess of $15,720 for the 2016 tax year. For more information about this reduction, go to Social Security Administration's website and download a brochure on how work affects your Social Security benefits, https://www.ssa.gov/pubs/EN-05-10069.pdf.

CHAPTER 2- DEDUCTIONS IN RETIREMENT

Now that we have covered income in retirement, let's take a look at deductions you get to subtract from that income to arrive at your taxable income. Some deductions are better than other deductions because they can be used dollar for dollar to reduce your taxes. Some deductions have to exceed a certain percentage before you can deduct them from your income. And still other deductions can only be used to offset certain types of income, such as gambling losses can only be used to offset gambling winnings. Let's look at these deductions in terms of "standard deductions" and itemized deductions."

STANDARD DEDUCTION

The IRS provides you with a fixed dollar amount deduction that increases every year for inflation that is called a "standard deduction." The standard deduction amount varies depending on your income, age, and filing status, and changes each year. You do not have to itemize deductions or maintain any special tax records to claim the standard deduction. You are entitled to claim your full standard deduction no matter how high your income is. The standard deduction is not phased out as your income increases, like itemized deductions are. For 2016, the standard deduction amounts are as follows:

single...$6,300
married filing jointly..$12,600
married filing separately..$6,300
head of household...$9,300
qualifying widow(er)...$12,600
additional amount if over age 65 or blind (if married) $1,250
additional amount if over age 65 or blind (if single) $1,550

ITEMIZED DEDUCTIONS

Itemized deductions include amounts you paid for state and local income or sales taxes, real estate taxes, personal property taxes, mortgage interest, and disaster losses. You may also include gifts to charity and part of the amount you paid for medical and dental expenses. You should itemize deductions if your allowable itemized deductions are greater than your standard deduction. You would usually benefit by itemizing on **Form 1040, Schedule A**, if you:

*** Cannot use the standard deduction**
*** Had large uninsured medical and dental expenses**
*** Paid interest or taxes on your home**
*** Had large unreimbursed employee business expenses**
*** Had large uninsured casualty or theft losses, or**
*** Made large charitable contributions**

Your itemized deductions may be limited and your total itemized deductions may be phased out (reduced) if your adjusted gross income for 2016 exceeds the following threshold amounts for your filing status:

*** Single - $258,250**
*** Married filing jointly or qualifying widow(er) - $309,900**
*** Married filing separately - $154,950 * Head of household - $284,050**

Some individuals are not allowed to itemize deductions.
*** A married individual filing as married filing separately whose spouse itemizes deductions.**
*** An individual who files a tax return for a period of less than 12 months because of a change in his or her annual accounting period.**
*** An individual who was a nonresident alien or a dual-status alien during the year. Nonresident aliens who are married to a U.S. citizen or resident alien at the end of the year and who choose to be treated as U.S. residents for tax purposes can take the standard deduction.**

With only a few exceptions, the tax law allows you to claim the same deductions after retirement that you claimed before retirement. After retirement, some of these deductions will actually increase, such as expenses on health care. Other deductions will decrease, such as business expenses and mortgage interest as you pay down or pay off the mortgage on your home. It can be bothersome to keep receipts, but if your deductible expenses exceed the standard deduction, it will be worth your time in tax savings.

MOST COMMON ITEMIZED DEDUCTIONS

The following is a list of the most common itemized deductions for retirees:
*** Mortgage interest**
*** Property tax**
*** State and local income taxes**
*** Charitable contributions**
*** Medical expenses including health insurance and Medicare premiums (Until 2017, taxpayers age 65 and older get a break when it comes to deducting medical expenses. You only need to exceed of 7.5% of adjusted gross income to take the deduction.)**
*** Investment fees that exceed 2% of your adjusted gross income including safe deposit box fees, subscriptions to investment newsletters, fees for online services, home computers used for investment purposes, fees to financial planners and fees you pay to a broker, bank, trustee or other agent to collect investment income**
*** Attorney and accounting fees**
*** Business expenses**

DEDUCTIONS RELATED TO SPECIFIC INCOME

There are expenses so closely tied to income generated that those deductions can only be taken to offset that income. Some examples included rental expenses related to rental property and business expenses related to running a business. In order to take these as deductions, you will need to claim income and report the expenses on a form that is separate from the **Form 1040** and the **Schedule A**. When you own rental property, you report the income and expenses on **Schedule E, *Supplemental Income and Loss.*** (see "Deductions Related to Real Estate" later in this chapter.) When you run a small business, you report the income and expenses on **Schedule C, *Profit or Loss from Business.*** (See "Business Deductions" later in this chapter.)

EXEMPTIONS IN RETIREMENT

The personal exemption is an amount every person may claim on his or her tax return to reduce taxable income. If you file a joint return, you are able to claim an exemption for yourself and your spouse. If you are responsible for more than half the support of another, you may be able to claim a dependency exemption for that person as well. If you are entitled to claim an exemption for a dependent, that dependent cannot claim a personal exemption on his or her own tax return. Personal exemptions are

increased annually for inflation and the value of a personal exemption in 2016 is $4,050. Like itemized deductions, personal exemptions can be phased out if your income is high enough. You lose at least part of the benefit of your exemptions if your adjusted gross income is more than a certain amount. For 2015, this amount is $155,650 for a married individual filing a separate return; $259,400 for a single individual; $285,350 for a head of household; and $311,300 for married individuals filing jointly or a qualifying widow(er).

DEDUCTIONS RELATED TO REAL ESTATE

When you own rental real estate, you can deduct almost everything you spend to maintain or improve the rental property. These deductions are listed on **Schedule E, *Supplemental Income and Loss.*** If you have an expense that isn't listed on Schedule E, you may list them separately under "Other." You are entitled to deduct these expenses from the first day you make the property available to rent. The common expenses that are deductible on Schedule E include advertising, cleaning and maintenance, commissions paid to a rental broker, homeowner association dues, insurance, legal and professional fees, management fees, mortgage interest, painting and decorating, supplies, taxes, utilities, and travel to maintain your rental. You may also deduct the cost of repairs, but improvements are treated differently for tax purposes. If the work done brings the property back to its condition prior to the breakdown, it can be considered a repair because it halted the property's deterioration. If the work done extends the "useful life" of the property so that it is in better condition than before the breakdown, you will have to spread the deduction over the useful life of the work done. This is called depreciation. The IRS provides charts showing the expected life of various improvements and property.

Depreciation can be the largest single deduction relating to rental property. Depreciation is a system devised by lawmakers to spread the cost of recovering expenses for significant improvements and the rental property itself over a series of years. The time period over which the depreciation deduction is permitted is tied to the useful life or "expected life" of the property. Generally, the cost of your improvement or the rental property plus certain amounts you paid as part of the sale such as legal fees, commissions and transfer taxes, is typically your depreciable basis. Because land is not depreciable, you must subtract the cost of the land from the amount you paid for your rental property before you can figure your depreciation deduction. For more detailed information on depreciation, you may want to look at **IRS Publication 946, How to Depreciate Property.**

There are some expenses related to rental property that are not deductible. You cannot deduct unpaid rent, travel costs to find a rental, home office expenses for handling your rental property unless you are in the business of managing rental properties, and education expenses. However, if your deductible rental expenses exceed your rental income, you may have a deductible loss that you can claim against your other taxable income so long as your modified adjusted gross income does not exceed $100,000. That loss is limited to $25,000. Any loss in excess of $25,000 must be carried over and used in the following year. For more detailed information, see **IRS Publication 527, *Reporting Rental Income, Expenses, and Losses.***

BUSINESS DEDUCTIONS

If you decide to start a business once you are retired, you know that you have to decide how to report the income from that business. Most people who start a business in retirement choose to run the business as a sole proprietorship. If you are concerned about liability issues, you may choose a different business entity type. In this section, we are assuming you are running your business as a sole proprietorship and will focus on the income and expense items that are reported on **Schedule C, *Profit or Loss from Business.***

Your first consideration is whether you are running the business to make a profit or as a hobby. IRS does not allow business deductions in excess of business income for hobbies. So, you need to have a profit motive for your business. Start-up expenses are deductible in the first year your business is actually operating up to $5,000 as long as you make that election under Section 195 of the Internal Revenue Code. If your start-up expenses exceed $5,000, you may deduct those expenses over the next 15 years.

Once your business is operating and running and you have brought in your first dollar of revenue, most of what you pay to operate it is deductible. Some of the most common operating expenses are advertising, commissions and fees, contract labor, employee benefits, liability insurance, interest on business loans, legal and professional fees, office expenses, rent, repairs and maintenance, supplies, taxes and licenses, travel, utilities, employee wages, telephone and internet expenses, postage and shipping, business related education and half of your business-related meals and entertainment expenses. Business gifts are also deductible, but only up to $25 per person. Auto travel is also deductible and you may choose to track your actual expenses or take a standard mileage rate, but you will need to keep track of your business mileage. If you have to travel out of town for business, your travel expenses are deductible and 50% of your meals will also be deductible.

For office equipment that has a longer useful life, you will have to depreciate their cost over time. For new businesses, there is a special first year expensing deduction allowed under Section 179 of the Internal Revenue Code. The 2016 deduction limit is $500,000. This deduction is good on new and used equipment, as well as off-the-shelf software. This limit is only good for 2016, and the equipment must be financed/purchased and put into service by the end of the day, 12/31/2016. There are a number of special rules and exceptions to this particular deduction. You can find that information in **IRS Publication 946, *How to Depreciate Property.***

CREDITS AGAINST TAXES

Deductions are used to offset income. Credits are different from deductions in that credits are applied dollar for dollar against taxes owed. That makes credits potentially more valuable than deductions. Some of the tax credits that might be available to you include the foreign tax credit for foreign taxes you paid on foreign sourced income (like dividends on Novartis, the Swiss drug manufacturer), the credit for the elderly and disabled, the child and dependent care credit, education credits, earned income credits, health coverage tax credits and saver's credits. To find out more about these credits and whether you qualify to take them, visit the IRS website, https://www.irs. gov/credits-deductions.

CHAPTER 3- THE 2016 TAX TABLES

One of the most common mistakes retirees make is overestimating their tax rate in retirement. This is important because it impacts how much you think you need to have saved for your retirement, and then when you retire, it impacts your strategies for withdrawing taxable income. Remember that not all of your retirement income will be subject to tax. Even if it is, it is highly likely that your income will be lower because you don't need quite as much income to live in retirement as you did when you were working. Consider that you probably have lower expenses because you no longer have commuting or work-related expenses. You don't need to spend as much on your wardrobe and you don't have that many business lunches. You may no longer have children that are financially dependent on you. Your mortgage or rent may be lower because you have downsized your house.

When we talk about tax rates, please consider both your marginal tax rate and your effective tax rate. Your marginal tax rate is the rate you pay on an additional dollar of income. You can find that rate by consulting the appropriate tax table below. However, many argue that the more important tax rate is your effective tax rate. The formula for an effective tax rate is simply your total taxes paid, divided by your total taxable income. You may want to use the lower effective tax rate when you are estimating how much of your retirement income will actually be consumed by taxes. Many financial advisors use the higher, marginal rate and while that is a more conservative assumption, it also paints a more pessimistic picture of what taxes will cost you in retirement.

Don't forget to take into consideration the taxes imposed at the state level. Many retirees choose to live in tax-friendly states that don't tax income at all such as Florida, Texas and Nevada. If you choose to live in a state that has a state income tax, you will need to include those tax rates in the total cost of income taxes in retirement.

If Taxable Income Is Between:	The Tax Due Is:
0 - $9,275	10% of taxable income
$9,276- $37,650	$927.50 + 15% of the amount over $9,275
$37,651 - $91,150	$5,183.75 + 25% of the amount over $37,650
$91,151 - $190,150	$18,558.75 + 28% of the amount over $91,150
$190,150 - $413,350	$46,278.75 + 33% of the amount over $190,150
$413,351 - $415,050	$119,934.75 + 35% of the amount over $413,350
$415,051 +	$120,529.75 + 39.6% of the amount over $415,050

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MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

If Taxable Income Is Between:	The Tax Due Is:
0 - $18,550	10% of taxable income
$18,551 - $75,300	$1,855 + 15% of the amount over $18,550
$75,301 - $151,900	$10,367.50 + 25% of the amount over $75,300
$151,901 - $231,450	$29,517.50 + 28% of the amount over $151,900
$231,451 - $413,350	$51,791.50 + 33% of the amount over $231,450
$413,501 - $466,950	$111,818.50 + 35% of the amount over $413,350
$466,950 +	$130,578.50 + 39.6% of the amount over $466,950

MARRIED FILING SEPARATELY

If Taxable Income Is Between:	The Tax Due Is:
$0 - $9,275	10% of taxable income
$9,276 - $37,650	$927.50 + 15% of the amount over $9,275
$37,651 - $75,950	$5,183.75 + 25% of the amount over $37,650
$75,951 - $115,725	$14,758.75 + 28% of the amount over $75,950
$115,726 - $206,675	$25,895.75 + 33% of the amount over $115,725
$206,676 - $233,475	$55,909.25 + 35% of the amount over $206,675
$233,476 +	$65,289.25 + 39.6% of the amount over $233,475

HEADS OF HOUSEHOLD

If Taxable Income Is Between:	The Tax Due Is:
0 - $13,250	10% of taxable income
$13,251 - $50,400	$1,325 + 15% of the amount over $13,250
$50,401 - $130,150	$6,897.50 + 25% of the amount over $50,400
$130,151 - $210,800	$26,835 + 28% of the amount over $130,150
$210,801 - $413,350	$49,417 + 33% of the amount over $210,800
$413,351 - $441,000	$116,258.50 + 35% of the amount over $413,350
$441,001 +	$125,936 + 39.6% of the amount over $441,000

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INDIVIDUAL STATE INCOME TAX RATE 2015

STATE	TAX RATE	BRACKETS	INCOME RANGE
ALABAMA	2.0 - 5.0 %	3	$0 - 3,000
ALASKA	NONE		
ARIZONA	2.59 - 4.54 %	5	$0 – 150,001
ARKANSAS	0.9 - 6.9 %	6	$0 – 35,100
CALIFORNIA	1.0 – 13.3 %	10	$0 – 1,000,000
COLORADO	4.63 %	1	FLAT RATE
CONNECTICUT	3.00 - 6.9 %	7	$0 – 500,000
DELAWARE	0 – 6.6 %	7	$2,000 – 60,000
FLORIDA	NONE		
GEORGIA	1.0 6.0 %	6	$0 – 7,000
HAWAII	1.4 – 8.25 %	9	$0 – 96,000
IDAHO	1.6 – 7.4 %	7	$0 – 10,800
ILLINIOS	3.75 %	1	FLAT RATE
INDIANA	3.3 %	1	FLAT RATE
IOWA	0.36 – 8.98 %	9	$0 -69,930
KANSAS	2.7 – 4.6 %	2	$0 - 30,000
KENTUCKY	2.0 – 6.0 %	6	$0 -75,000
LOUISIANA	2.0 – 6.0 %	3	$12,500 -100,000
MAINE	5.8 – 7.95 %	3	$0 – 74,999
MARYLAND	2.0 5.75 %	8	$1,000 – 250,000
MASSACHUSETTS	5.1 %	1	FLAT RATE
MICHIGAN	4.25 %	1	FLAT RATE
MINNESOTA	5.35 – 9.85 %	3	$0 – 259,400
MISSISSIPPI	3.0 -5.0 %	3	$0 – 10,000
MISSOURI	1.5 – 6.0 %	10	$0 – 9,000
MONTANA	1.0 – 6.9 %	7	$0 -17,400
NEBRASKA	2.46 – 6.84 %	4	$0 – 59,180
NEVADA	NONE		
NEW HAMPSHIRE	5.0 %		DIVIDEND AND INTEREST INCOME ONLY
NEW JERSEY	1.4 – 8.97 %	6	$0 – 500,000
NEW MEXICO	1.7 – 4.9 %	4	$0 – 24,000

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STATE	TAX RATE	BRACKETS	INCOME RANGE
NEW YORK	4.0 - 8.82 %	8	$0-2,140-900
NORTH CAROLINA	5.75 %	1	FLATE RATE
NORTH DAKOTA	1.22 – 3.22 %	5	$0-411,500
OHIO	0.528 – 5.333 %	9	$0-208,500
OKLAHOMA	0.5 – 5.25 %	7	$0-12,000
OREGON	5 -9.9 %	4	$0-250,000
PENNSYLVANIA	3.07 %	1	FLAT RATE
RHODE ISLAND	3.75 – 5.99 %	3	$0-138,000
SOUTH CAROLINA	0 -7.0 %	6	$0-14,600
SOUTH DAKOTA	NONE		
TENNESSEE	6.0 %		DIVIDEND AND INTEREST INCOME ONLY
TEXAS	NONE		
UTAH	5.0 %	1	FLAT RATE
VERMONT	3.55 – 8.95 %	5	$0-421,900
VIRGINIA	2 – 5.75 %	4	$0-17,000
WASHINGTON	NONE		
WEST VIRGINA	3 -6.5 %	5	$0-60,000
WISCONSIN	4.4 – 7.65 %	5	
WYOMING	NONE		$0-326,330
DISTRICT OF COLUMBIA	4 -8.95 %	4	$0-1,000,000

*** 2015 State Income Tax Rates - Copyright © 2005-2016 Money-Zine.com (Last Reviewed on February 9, 2016)**

CHAPTER 4 – CHARITABLE DONATIONS AND VOLUNTEERING

CHARITABLE DONATIONS

There are many ways to give to qualified charities. Most people typically give money, property or time. Here are some rules to follow to substantiate your charitable donations. You can find these recordkeeping rules in the IRS Publication 1771, Charitable Contributions. "The IRS imposes recordkeeping and substantiation rules on donors of charitable contributions. Donors must have a bank record or written communication from a charity for any monetary contribution before the donors can claim a charitable contribution on their federal income tax returns. Donors are responsible for obtaining a written acknowledgment from a charity for any single contribution of $250 or more before the donors can claim a charitable contribution on their federal income tax returns. Charitable organizations are required to provide a written disclosure to a donor who receives goods or services in exchange for a single payment in excess of $75."

CASH GIFTS

The most common and the simplest gift to give charity is cash. If your cash gift doesn't include anything in exchange, your contribution will be fully deductible. The only element you need to be concerned with regarding a cash gift is whether you receive anything in exchange for your gift. For example, if you buy a table at a charitable fundraiser, you will need to subtract the cost of the food and drink you receive from the value of your charitable gift.

CLOTHING AND HOUSEHOLD GOODS

The next most common gift is property. You can donate almost any kind of property to charity from used clothing and household goods to cars to securities to real estate to collectibles. The rules for contributions of property are a little more complex. You can never deduct more than the fair market value of the property and sometimes you are limited to your basis as your charitable deduction. With clothing and household goods, thrift stores can provide you with the best indication of fair market value.

APPRECIATED CAPITAL GAIN PROPERTY

When you donate property that you have held for more than one year, computing your charitable contribution becomes much more confusing. Your deduction will depend on the type of property, the type of organization you give it to and how the organization plans to use the property. The deduction is generally limited by 20%, 30% or 50% of your adjusted gross income. The rules are different if you give stock versus real estate versus artwork. You may also donate a partial interest in property, subject to more rules. For a more thorough discussion of the rules surrounding donations of appreciated capital gain property, consult IRS Publication 526, Charitable Contributions.

RECORD KEEPING AND SUBSTANTIATION REQUIREMENTS

If you donate property worth more than $500, you will need to complete IRS Form 8283, Noncash Charitable Contributions, and attach it to your tax return. If you donate property that is worth more than $5,000, you will have to obtain an appraisal to include with your IRS Form 8283. The appraisal itself must be made by a qualified appraiser, must be made no more than 60 days before you donate the item, you must obtain a separate appraisal for each item or group of items requiring an appraisal, and you must receive the appraisal prior to the due date of your income tax return.

CHARITABLE VOLUNTEERING

In addition to making charitable contributions to qualified charitable organizations, many retirees volunteer their time and expertise. While those services are extremely valuable, they do not qualify for a tax deduction. However, there are a number of volunteer expenses that might be eligible for a tax deduction.

You are allowed to claim a deduction for unreimbursed expenses that you incur for the qualified charity. Some examples of volunteer expenses include telephone expenses, supplies, the cost of hosting fundraisers, advertising expenses, uniforms and travel. If you use your own car, you are entitled to a mileage reimbursement rate of $.14 per mile. If the travel is out of town overnight, you are entitled to deduct travel costs, meals and lodging; however, if any significant element of "personal pleasure" is included, the deduction will be denied for charitable purposes.

QUALIFIED AND NON-QUALIFIED RETIREMENT PLANS

Income distributions from traditional tax-deferred retirement sources such as 401(k) plans, SEPs, SIMPLE plans, traditional IRAs, 403(b) plans and 457 Eligible Government Plans are subject to ordinary income tax. Exact requirements to withdraw money from these plans vary and the amount of tax assessed will depend on the tax rates in existence at the time of withdrawal. Withdrawals from Roth IRAs are tax-free if the account was held for at least 5 years and you are at least 59 1/2 years of age when you make the withdrawal. Since contributions to non-qualified annuities are made with after-tax dollars and are not deductible from gross income for income tax purposes, the withdrawals from non-qualified annuities are subject to special taxation rules. If the withdrawal constitutes a contractual annuity payment, the payment will be treated as partially taxable and partially a return of your original investment. The company who issued your annuity will provide you with a Form 1099R that shows you exactly how much is taxable and how much represents a return of your investment.

CHAPTER 5 – TAX IMPLICATIONS OF WORKING IN RETIREMENT

HOW EARNED INCOME IMPACTS SOCIAL SECURITY OR OTHER RETIREMENT BENEFITS

You can get Social Security retirement benefits and work at the same time. However, if you are younger than full retirement age and make more than the yearly earnings limit, the Social Security Administration will reduce your benefit. Starting with the month you reach full retirement age, your benefits will not be reduced, no matter how much you earn.

*** SSA uses the following earnings limits to reduce your benefits: If you are under full retirement age for the entire year, they deduct $1 from your benefit payments for every $2 you earn above the annual limit. For 2016 that limit is $15,720.**
*** In the year you reach full retirement age, they deduct $1 in benefits for every $3 you earn above a different limit, but only count earnings before the month you reach your full retirement age. If you will reach full retirement age in 2016, the limit on your earnings for the months before full retirement age is $41,880.**

Starting with the month you reach full retirement age, you can get your benefits with no limit on your earnings. Any reduction in benefits due to the earnings limit is only temporary, analogous to "withholding." You will get the money back in the form of a higher benefit at full retirement age, so you should not allow the earnings limit to influence your decision to work after you begin receiving Social Security retirement benefits

If you decide to go back to work and are currently receiving other retirement benefits from a pension plan, you will need to check with the pension plan provider and your new human resources department to see if returning to work will have any impact on your benefits. This is especially important if you plan to return to your former employer.

If you're 65 or older and already covered by Medicare, be sure to check with your employer's human resources department about how their insurance coverage would work with your Medicare. Medicare also has a brochure called "Medicare and Other Health Benefits: Your Guide to Who Pays First" which should provide you with answers to most of your Medicare coverage questions.

CONTRIBUTING TO QUALIFIED PLANS AFTER YOU HAVE RETIRED FROM YOUR MAIN JOB

As long as you have earned income, you are allowed to contribute to qualified retirement plans through your new employer or to a traditional or Roth IRA. Contributions to a traditional IRA must stop at age 70 ½, but you can continue to contribute to a Roth IRA or a 401(k) through your employer until you stop working. To contribute to a Roth, your modified adjusted gross income must be less than $132,000 in 2016 if you're single, or $194,000 if you're married filing jointly (the contribution amount starts to phase out if you earn more than $117,000 if single or $184,000 if married filing jointly). For 2016, you will be able to contribute up to $18,000 to a 401(k) with a $6,000 additional catch up contribution if you are over 50, and $5,500 to a traditional or Roth IRA with a $1,000 additional catch up contribution if you are over 50.

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TAKING REQUIRED MINIMUM DISTRIBUTIONS

Just because you have gone back to work doesn't necessarily mean you can postpone taking required minimum distributions ("RMDs") from all of your retirement plans. You generally have to start taking withdrawals from your IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 70½. Roth IRAs do not require withdrawals until after the death of the owner. The rule is different for 401(k) plans, though. When you continue to work, you can delay taking RMDs from your current employer-provided plan, such as your 401(k) plan, until April 1 of the year after you retire. (Employees who own more than 5 percent of the company sponsoring the plan can't use this delaying tactic. They must start distributions from their 401(k) accounts after age 70 1/2, regardless of whether they continue to work.) You are taxed at your own ordinary income tax rate on the amount of the withdrawn RMD. However, to the extent the RMD is a return of basis or is a qualified distribution from a Roth IRA, it is tax free

IRA, SEP IRA, AND SIMPLE IRA RMDS

You must take your first required minimum distribution for the year in which you turn age 70½. However, the first payment can be delayed until April 1 of the year following the year in which you turn 70½. For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31 of the year.
Generally, a RMD is calculated for each account by dividing the prior December 31 balance of that IRA or retirement plan account by a life expectancy factor that IRS publishes in Tables in IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs). Choose the life expectancy table to use based on your situation. Your choices are:

*** Joint and Last Survivor Table - use this if the sole beneficiary of the account is your spouse and your spouse is more than 10 years younger than you**
*** Uniform Lifetime Table - use this if your spouse is not your sole beneficiary or your spouse is not more than 10 years younger**

You must calculate the RMD separately for each IRA that you own, but can withdraw the total amount from one or more of the IRAs.

401(K) AND 457(B) RMDS

The RMD rules apply to all employer-sponsored retirement plans, including profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans. RMDs required from plans such as 401(k) and 457(b) plans have to be taken separately from each of those plan accounts.

PENALTIES FOR LATE WITHDRAWAL OF RMDS

If you fail to withdraw a RMD, fail to withdraw the full amount of the RMD, or fail to withdraw the RMD by the applicable deadline, the amount not withdrawn is subject to a penalty of 50%. This penalty may be waived if you can establish that the shortfall in distributions was due to reasonable error and that reasonable steps are being taken to remedy the shortfall. In order to qualify for this relief, you must file IRS Form 5329 and attach a letter of explanation. This waiver is generally only good once.

You should also know that if you take out an amount in excess of the RMD, you are not allowed to apply the excess to an RMD for a future year. Nor can you rollover an RMD into another qualified account.

CHAPTER 6 -MEDICARE

If you are close to turning age 65, you need to think about enrolling for Medicare. You become eligible for Medicare as soon as you turn 65, and delaying your enrollment can result in penalties, so it is important to know what you have to do.

MEDICARE PART A

Medicare has four parts. Medicare Part A is the Hospital insurance program. It also covers short-term care in skilled nursing facilities for rehabilitation, short-term skilled home care, and hospice services. You are automatically covered under Medicare for no premium unless you or your spouse have not accumulated 40 quarters of Social Security work credits.

MEDICARE PART B

Medicare Part B covers outpatient healthcare visits such as doctors, nurse practitioners, outpatient surgery, diagnostic testing, and durable medical equipment. Part B is optional Medicare coverage and does require a premium, which is based on your income. You can decline Medicare B coverage if you have other health insurance that meets Medicare requirements. If you lose that other coverage, at some point in the future, you can enroll in Medicare Part B with no penalty if you apply on a timely basis. If you decide not to sign up for Medicare B and do not have other coverage that meets Medicare requirements, you will pay a penalty for late enrollment. That penalty is 10% per year for each year that you delay. You can only enroll during the General Enrollment period which runs between January 1 and March 31 of each year.

MEDICARE PART C

Medicare Part C is a Health Maintenance Organization (HMO) type of coverage that is also known as Medicare Advantage (MA). It isn't really a separate "Part" of Medicare but is a combination of Medicare Parts A and B. Sometimes it also includes Medicare Part D and then it is known as Medicare Advantage with Prescription Drug coverage (MA-PD).

MEDICARE PART D

Medicare Part D is optional Medicare coverage and usually requires a premium that is based on income.

It covers most prescription drugs in various levels of payment. Like Medicare Part B, you will pay a penalty for it if you enroll late and do not have a Medicare acceptable reason to do so. There are approximately 4,500 Medicare Part D programs that are sold through insurance companies around the country. As a result, it is complex and often confusing for people to make the choice of a specific program. You will need to find a Part D plan that is available in your area. Specifically, Medicare Part D plans are based on your legal residence. Therefore, if you live in more than one place, your plan will be based on your legal resident address. If you have Medicare Part D coverage, you can reevaluate your choice once a year during the "open enrollment" period starting on October 15th through December 7th every year. At that point, you can keep your current plan and do nothing or select another plan that better suits your needs for the following year.

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MEDIGAP

You may have heard of "Medigap." Some people call it "supplemental insurance" for Medicare. Medigap is private health insurance that is optional for you to purchase. It is designed to supplement Original Medicare Parts A and B. This means it helps pay some of the health care costs ("gaps") that Original Medicare does not cover (like copayments, coinsurance, and deductibles). If you have Original Medicare and a Medigap policy, Medicare will pay its share of the Medicare-approved amounts for covered health care costs. Then your Medigap policy pays its share. Medigap insurance companies in most states can sell "standardized" Medigap policies identified by letters A, B, C, D, F, G, K, L, M and N. A Medigap Plan Type F has the most extensive list of benefits. A Medigap Plan Type A has the least covered benefits.

MEDICARE ENROLLMENT

Medicare enrollment begins three months before your 65th birthday and continues for 7 months. If you are currently receiving Social Security benefits, you will be automatically enrolled in Medicare Parts A and B effective the month you turn 65. If you do not receive Social Security benefits, then you will need to sign up for Medicare by contacting the Social Security Administration. It is best to enroll as early as possible so your coverage begins as soon as you turn 65.

If you are still working and have an employer or union group health insurance plan, or if you are retired and still covered under your employer's health plan, it is possible you do not need to sign up for Medicare Part B right away. You will need to find out from your employer whether the employer's plan is the primary insurer. If Medicare, rather than the employer's plan, is the primary insurer, then you will still need to sign up for Part B. Even if you aren't going to sign up for Part B, you should still enroll in Medicare Part A, which may help pay some of the costs not covered by your group health plan.

APPLYING FOR MEDICARE

You apply for Medicare through the Social Security Administration (SSA). Before you apply, be prepared with the following information:

• Social Security number • Date of birth • City and state in which you were born

• Your first and last name • Mother's maiden name

• Go to the SSA site: http://www.socialsecurity.gov/retireonline/ and answer the questions as they are asked in the online form.

• Once you start the online application, your "Application Number" will be on the screen. Take note of that. If you are not able to complete your application, you can save it and restart where you left off using your "Application Number."

• Once you have submitted your online application, you will see a "Confirmation Number." It is very important that you write that down or print a copy of the screen. You will use that "Confirmation Number" if you need to call the SSA to ask any questions about the status of your application while it is being processed. SSA does not keep a copy of your "Confirmation Number" and will not be able to find your application if you do not provide your own "Confirmation Number."

• An email confirming receipt of your application will be sent to the email address you provided on your application.

• You can apply on the phone with the SSA by calling 800-772-1213, 7 AM - 7 PM, Monday– Friday

• You can apply in person at the Social Security Administration office nearest to you

If you are older than 65 years and three months of age, you are outside of the Initial Medicare Enrollment Period (IEP). If you are outside of your IEP, the Medicare application process has a few

different twists. First, you will want to determine if you are eligible for a Special Enrollment Period (SEP). If so, you can proceed to apply for Medicare Parts A and B right away. If not, you will be eligible to enroll in Medicare Parts A and/or B during the next General Enrollment Period (GEP) which is January 1st through March 31st of each year.

THE SOCIAL SECURITY HOLD HARMLESS PROVISION

The Social Security Administration enacted a special rule called the "Hold Harmless" provision that ensures that Social Security checks will not decline from one year to the next because of increases in Medicare Part B premiums. The Hold Harmless provision applies to most, but not all, Social Security recipients. Most people who receive Social Security disability or retirement benefits and Medicare Part B (coverage for doctor visits) are eligible for protection under this provision. Whether this provision comes into play in a particular year depends on the amount of the cost of living adjustment (COLA) and the Medicare Part B premium increase.

When there is a Medicare Part B premium increase and a low or no COLA, the Hold Harmless provision would help approximately 70% of Social Security recipients. The vast majority of recipients have their Part B premiums automatically deducted from their Social Security payments every month. When Medicare premiums were climbing each year, without the COLA keeping pace, it was possible for a Social Security recipient to have a reduction in their Social Security check to pay for the increased Medicare premium. The Hold Harmless provision kept that from happening and applies to all Social Security recipients except the wealthy (defined as those earning $85,000 for an individual or $170,000 for a married couple) and those who are receiving Medicare for the first year. In addition, there are low-income Medicare recipients whose Medicare premiums are paid by their state Medicaid agencies, and those premiums are not protected by the Hold Harmless provision. What this means is that none of the coming year's Medicare Part B premium increase can be applied to the 70% of Medicare enrollees eligible for the Hold Harmless provision. However that also means all of the increase must instead be borne by the roughly 30% of Medicare enrollees not subject to the Hold Harmless provision. It is important to note that the Secretary of Health and Human Services Department has the ability to intervene and cap the increase at a specific percentage in the event that the increase would cause an unfair burden to fall on those enrollees not subject to the Hold Harmless provision.

CHAPTER 7 – FAMILY MATTERS

SURVIVING YOUR SPOUSE

There are a number of tax issues that you will need to face if you survive your spouse. If you were filing a joint return before your spouse died, you can file a joint return for the year of your spouse's death. You may also claim a personal exemption for yourself and your deceased spouse on that return, so long as you did not remarry. You will report income and expenses for yourself for the entire year, but you will only report income and expenses for your spouse for the period prior to your spouse's death. Any income or expense attributable to your spouse for the period after your spouse's death will be reported on the income tax return of your spouse's estate. There are a few exceptions to this general rule, such as medical expenses. Because there can be substantial medical expenses in the year of death, you are allowed to claim all your spouse's medical expenses paid during the year, even if the amounts were paid after your spouse's death. If your spouse had a substantial estate, you will likely need to consult a legal or tax professional to help you open up a probate estate and file the necessary documents to begin the process of distributing your spouse's assets. The year following your spouse's death, you will file as a single individual and you will claim a personal exemption just for yourself. If you do remarry, you may decide to file a joint return with your new spouse.

GIFTING TO FAMILY

A gift is a transfer of cash or other property to another person or entity where you give up all legal rights to the property transferred. Gifting assets to family members is a common strategy to reduce the size of your estate and any subsequent estate taxes that may be due upon your death. Gifts are subject to a different set of tax rules known as gift and estate transfer taxes. Under current law, every individual can give up to $14,000 to each recipient per year without having to report the gift or pay a gift tax. The gift isn't treated as income to the recipient, nor does it create an income tax deduction for you.

Gift tax rules can get very complicated, so we will only touch on the highlights. The value of the gift is determined by fair market value on the day you give it. Whatever basis you have in the gift, your recipient will adopt the same basis. If the gift is in excess of the annual exclusion amount of $14,000, you will have to file a gift tax return, but you won't necessarily owe a gift tax. You have a lifetime gift and estate tax exclusion that is equivalent to a cumulative amount of $5,450,000 for 2016. The lifetime amount is adjusted annually for inflation. Once you exceed $5,450,000 in taxable gifts, you will pay gift tax at a rate of 40% on the excess gift.

Some gifts are not subject to tax. If you pay someone else's medical expenses directly to the medical care provider, that is not considered a gift so long as the medical expenses would have been deductible as a medical expense. This exclusion applies regardless of the relationship between you and the person whose expenses you pay. That person does not need to be related to you, nor be your dependent.

There is also an unlimited gift tax exclusion for certain tuition expenses you pay for someone else's education. Like the medical expenses, you have to make the tuition payments directly to a qualified educational organization. Payments for room, board, books, supplies, and equipment do not qualify for the unlimited gift tax exclusion. Once again, you need not have any relationship with the person whose tuition you pay.

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PREPARING YOUR FAMILY FOR INHERITANCE

There is an old Chinese proverb that dates back several thousand years. "Fu bu guo san dai" which means "Wealth does not pass three generations." Simply put, unless you prepare your family to inherit the property you worked your entire life to build, it will be gone by the time your first great grandchild is born. The first generation works extremely hard to build the family fortune. The second generation reaps the benefits. The third generation squanders the wealth. While the second generation may see the value of hard work, the third forgets it. Your plans to prepare your family for inheritance can go a long way in preserving that wealth. Too many children have not been taught that wealth carries responsibility. Now is the time to help your family understand what you want them to do to honor your legacy.

This process starts by communicating with your family. Let them know what you have and what it means to you, as well as how you plan on distributing it and what you expect your family to do. This can take place in a "round the table" discussion or it can be more formal in the way of a family history that you yourself pass on to your family. Writing it down will eliminate the risk of the history getting confused in the re-telling.

Introduce your family to your advisors and vice versa. Planning and advising the family at the time of your death can be very awkward. Things will go much more smoothly if your family is already acquainted with your advisors long before your passing. Keep a record of where your important papers are and make sure your family knows where you keep these records. It will make it much easier on them when it comes time to file your will and put together an inventory of your assets for probate. If your estate is large enough to require the filing of a Federal Estate Tax Return, Form 706 and the payment of tax, your advisors will take care of that prior to distributing the net inheritance to your family.

The property your family inherits will generally not be subject to income tax when they receive it, unless it was income that you were entitled to during your lifetime that was never taxed, like qualified retirement plans. For the most part, the only tax responsibility your family will have is to report the income that is generated from the inheritance you leave them. If you have done a good job preparing your family, they will understand the value of your legacy and know how to invest and safeguard the inheritance you leave them.

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