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Tax Issues Affecting Seniors in the Workforce

A Discussion and Talk on the Issues with Q & A

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The IRS recognizes that many people are having difficult times financially. There can be a tax impact to events such as job loss, debt forgiveness or tapping a retirement fund. In each of these cases PLEASE consult a tax professional or an AARP tax volunteer on how you can proceed

JOB LOSS CREATES TAX ISSUES

The Internal Revenue Service recognizes that the loss of a job may create new tax issues. The IRS provides the following information to assist displaced workers.

- **Severance pay and unemployment compensation are taxable. Payments for any accumulated vacation or sick time are also taxable. You should ensure that enough taxes are withheld from these payments or make estimated payments. See IRS Publication 17, Your Federal Income Tax, for more information.**

- **Generally, withdrawals from your pension plan are taxable unless they are transferred to a qualified plan (such as an IRA). If you are under age 59 1/2. an additional tax may apply to the taxable portion of your pension. See IRS Publication 575, Pension and Annuity Income, for more information.**

- **Certain expenses incurred while looking for a new job may be deductible. Examples of deductible expenses include employment and outplacement agency fees, resume preparation, and travel expenses for job search and interviews. See IRS Publication 17, Your Federal Income Tax, for more information.**

- **Moving costs you incur because of a change in your job location may be deductible. You must meet certain criteria relating to distance moved and timing of the move. See IRS Publication 521, Moving Expenses, for more information.**

- **Some displaced workers may decide to start their own business. The IRS provides information and classes for new business owners. Please visit www.irs.gov or see IRS Publication 334, Tax Guide for Small Businesses, for more information.**

Source: IRS Publication 4128

Taxes: (continued)

What If I Can't Pay My Taxes

Don't Panic.

If you can't pay the full amount of taxes you owe by the filing deadline, you should timely file your return and pay a good faith down payment towards your liability. The IRS will contact you by mail within about 4-6 weeks after filing. You have some options: The agency might be able to provide some relief such as a short term extension or an offer in compromise. In some cases, the agency may be able to waive penalties, but not interest charges. If your liability is under $25,000 you might be able to set up an installment plan online and stretch out payments to 36- 48 months.

Where to get help:

www.irs.gov Search "Online Installment Agreements" or 1-800-829-1040

Tax Facts for Seniors with a Change in Marital Status

There are many life cycle events that can cause changes in your filing status. Among them is the death of a loved one, divorce, or marriage. Some of these events can affect tax benefits, credits or your tax bracket. These will affect whether you need to pay taxes and the amounts.

Where to get more: IRS Publication 3864

Retirement Planning

Most of us know that financial security doesn't just happen. It takes planning, commitment, and of course, money. While probably half of us have not calculated how much we need to save, there are steps we can take. Nobody should think it's too late to start.

Most professional agree on the following as steps to leading towards reaching your retirement goals.

1) **Know your retirement needs. Experts estimate that you'll need about 70%-90% of your preretirement income.**

2) **Find out your Social Security benefits. Social security pays the average retiree about 40% of their preretirement income. www.socialsecurity.gov 1-800-772-1213**

3) **Learn about your employer's pension or profit sharing plan. Participate, if eligible, and request benefit statement s periodically.**

4) **Contribute to Tax-sheltered savings plan like a 401(k). Sometimes, there are employer matching contributions which will help you reach goals quicker and produce tax savings.**

5) **Ask the employer to start a plan. There are "simple" plans which do not cost the employer. There are even tax credits for doing so.**

6) **Put money in an IRA. For year 2009 the limit for those over 50yrs old is $6,000. You can choose either a traditional IRA or a Roth IRA. The latter grows tax free forever under current law.**

7) **Don't touch your retirement savings once you start. There may be loss of tax benefits and loss of principal and interest as well. If you change jobs remember to take your retirement plan monies with you. You can roll them into your IRA or into the new employer's plan.**

8) **Start now, set goals, and stick to them. Remember, it's never too early or late to start saving, whatever your age.**

9) **Consider basic investment principles. Consider the type of investments and the role of inflation in how much you'll have saved at retirement. Know how your pension, IRA, or 401(k) is invested.**

10) **ASK QUESTIONS. Make sure the answers make sense to you. Get practical advice and act on it. If it doesn't sound right it probably isn't.**

Source: U.S. Dept. of Labor: Employee Benefits Security Administration, 1-866-444-3272

Estate Planning

If you'd like to ensure your assets are distributed as you'd like them to be when you die, estate planning is the answer. Successful estate planning transfers your assets to your designated beneficiaries quickly. Estate planning also assures that family members know how you'd like your financial and medical affairs to be handled if you became incapable of making your own decisions.

The process of estate planning includes inventorying your assets; talking over family decisions with family members; and making a Will. Please do not think that because you have minimal assets that you don't need a Will. <u>If you are the parent or guardian of minors you need to insure they're taken care of according to your wishes. This is done through a Will.</u>

A good first step in any estate plan is to inventory everything you own (i.e., you assets) and assign a value to each asset. Some of the assets can include:

Residence and other real estate
Savings and checking accounts
Investments
Pension and other retirement accounts
Life insurance policies
Motor Vehicles
Jewelry
Collectibles, e.g., art antiques, family heirlooms
Other personal property

Making a Will

A will is a legal document designating transfer of your property and assets after you die. Over half of us do not have one. If you don't have one, the court steps in and distributes your property according to the laws of your state. Remember that wills are not just for the rich; your will ensures that whatever your estate size, that what you worked a lifetime for goes to family members or other designated beneficiaries.

Some basic elements of a Will include:

Your name and place of residence
Brief description of your assets
Names of spouse, children, and other beneficiaries, such as charities or friends.
Alternate beneficiaries
Name of an Executor to manage the estate
Name of a guardian and alternate for any minor children
Your signature
Witnesses' signatures

Each state has specific requirements, but in general, a will can be written by anyone over the age of 18 who is mentally capable. Although it may seem like something you can do yourself. It may be best to consult an attorney when creating a will, especially if you expect to owe estate tax, foresee any disagreements amongst heirs or beneficiaries, you own property in another state, or you have a blended family.

Who Will Manage Your Affairs if you Cannot?

Many people assume that their spouses or children will automatically be allowed to make financial or medical decisions for them…This is not necessarily so.

What you can Do!

Powers of Attorney- Legal document that allows one person to appoint someone else to act on their behalf. The powers exercised by the agent can be broad or narrow. For estate planning purposes, a durable power of attorney is usually the recommended choice. The power of attorney automatically ends when the principal dies.

Living Wills- A kind of advance directive that comes into effect when a person is terminally ill. A living will does not give you the opportunity to elect someone to make decisions for you, but it allows you to specify the kind of treatment you want in specific situations.

Durable Power of Attorney for Health Care- Specifies whom you've chosen to make medical decisions for you. Remember that this person as your agent must: be willing to speak and advocate on your behalf, be willing to deal with conflict among friends and family members, and be someone you trust with your LIFE.

Make sure you let your family members and friends know whom you've chosen for this responsibility and why….

Remember that estate planning is not a one time job. Take a fresh look at your estate plan and Will if things change as time passes. New wills can be written and older ones destroyed after the new one is signed, dated, and witnessed. Consulting an attorney is usually the best advice one can give in this complex field.

Tax Counseling for the Elderly (TCE)

The IRS gives out grants to non-profit organizations that provide FREE tax advice to individuals who are 60 or over. Trained volunteers from these non-profit organizations provide free tax counseling and basic income tax preparation for senior citizens.

As part of this program the AARP offers the Tax-Aide program at more than 7000 sites during the filing season. Trained and certified Tax Aides help people of low to middle income with special attention to seniors. To locate the nearest AARP Tax-Aide site,
call 1-888-227-7669 or visit www.aarp.org