

Taxes for Seniors

UW Retirement Association
November 13, 2023

Agenda

- ▶ Introduction
[Link to Survey](#)
- ▶ Tax Brackets and Traps
- ▶ Wisconsin Taxes
- ▶ IRA's and Retirement Accounts
- ▶ New for 2023
- ▶ EdVest College Savings Plan
- ▶ Other (time permitting)



Your Presenter

▶ Dave Glova

- Retired chemical engineer
- NOT an accountant
- Retired seasonal tax preparer for 9 years
- Currently AARP Tax–Aide volunteer
- Mediocre golfer

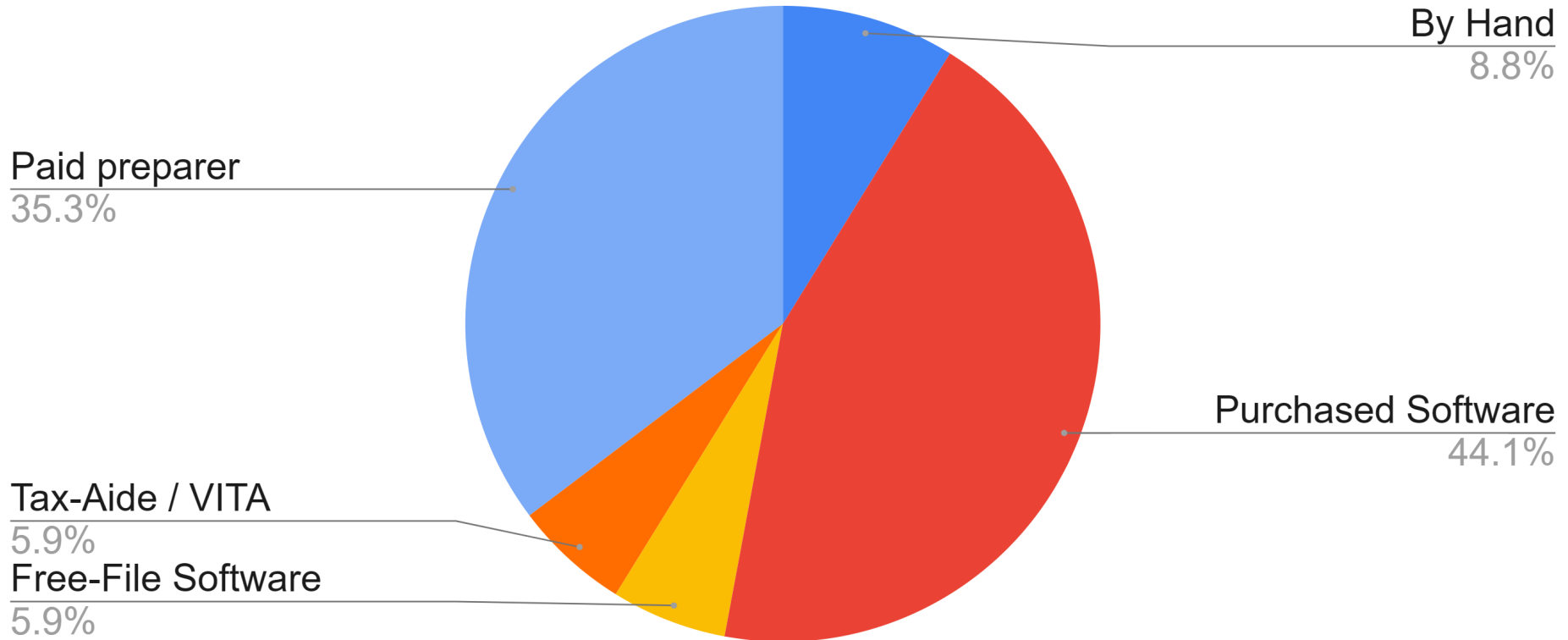


Meeting Set-Up

- ▶ Keep your microphone on MUTE during the presentation
- ▶ Questions will be answered at the end of each topic
- ▶ Use the chat feature to ask questions
- ▶ Also OK to “raise your hand” using the icon to ask a question verbally
- ▶ A copy of the slides will be available from coordinator

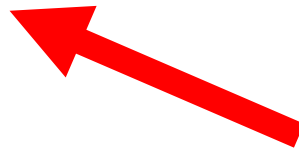
How do you do your taxes?

How do you do your taxes?



Three Important Tax Dates

- ▶ **APRIL 15 (+ / -)**
 - Tax returns due (sort of)
 - Taxes are due (definitely)
- ▶ **OCTOBER 15**
 - Extended tax returns due
- ▶ **DECEMBER 15**
 - Target to complete your tax planning items

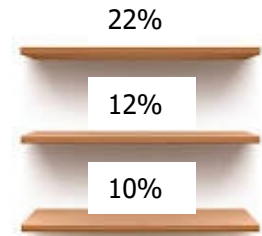


MEETING SET-UP

QUESTIONS?

COMMENTS?

Tax Brackets



▶ 2023 Tax Brackets (taxable income)

| | Married, Joint | Single |
|-----|-------------------|-------------------|
| 10% | \$0–22,000 | \$0–11,000 |
| 12% | \$22,001–\$89,450 | \$11,001–\$44,725 |
| 22% | \$89,451–190,750 | \$44,726–\$95,375 |
| ... | ... | ... |

- ▶ If you are filing Single and your taxable income is \$55,000:
 - What is your tax bracket?
 - 22%
 - How much of your income is taxed at 22%?
 - \$10,275

Tax Brackets

22%

12%

10%

- ▶ Why are brackets important?
 - Planning for correct withholding
 - Effect of additional income:
 - Taking conventional IRA distributions
 - Roth conversions
 - Capital gains (which have their own bracket)
 - Part-time jobs
 - Other income (US bonds, gambling winnings, etc)

Social Security



- ▶ How much is taxable?
 - 0%
 - 85%
 - 100%
 - ??????

- ▶ TAX TRAP 1: The “extra” tax bracket

[Link to spreadsheet](#)

Tax Trap 2: IRMAA



- ▶ IRMAA:
 - Income-related monthly adjustment amount

- ▶ It is the “extra” monthly Medicare premium based on:
 - Your tax return Modified Adjusted Gross Income (not taxable income).
 - Also adds tax-exempt income
 - Return used is from two years prior (ex. 2024 premium is based on 2022 return)
 - If Married Filing Joint, each would pay the extra

Tax Trap 2: IRMAA (cont)



2024 IRMAA Premium Increase

| MAGI, Single Cut-Points | MAGI, Married Joint Cut-Points | Yearly Part B + D Premium Increase ¹ |
|-------------------------|--------------------------------|-------------------------------------------------|
| $\leq \$103,000$ | $\leq \$206,000$ | \$0 |
| \$129,000 | \$258,000 | \$994 |
| \$161,000 | \$322,000 | \$2489 |
| \$193,000 | \$386,000 | \$4000 |
| \$500,000 | \$750,000 | \$5502 |
| $> \$500,000$ | $> \$750,000$ | \$6004 |

¹ Per person

These brackets are “cliffs”, not pro-rated



Tax Trap 3: US Savings Bonds



- ▶ If you haven't been claiming interest yearly (most don't), you must claim all accumulated interest when cashed
- ▶ US savings bonds mature after 30 years (stop earning interest)
 - TRAP: You must claim interest in the year when bonds mature whether cashed or not

BRACKETS AND TRAPS

QUESTIONS?

COMMENTS?

Tax Estimator

Rev. = 11/12/23

2023

Instructions: Fill in any of the blue-dashed boxes. All other cells are locked.

To calculate the maximum income with zero taxes, click button to right -->

Choose Filing Status

| | | |
|---------|---|---|
| No. 65+ | 1 | 1 |
| MFJ | | |
| Single | X | X |

Assumptions

- No dependents
- No income adjustments
- No capital gains
- No self-employment income
- No credits

Itemized Deductions

Leave blank for standard deduction

| Income | Case 1 | Case 2 | Case 2 - Case 1 |
|-------------------------|--------|--------------|--------------------|
| Social Sec | 20,000 | 20,000 | - |
| Cap Gains (NOT USED) | 0 | 0 | 0 |
| Other Income | - | 40,000 | 40,000 |
| Tax Exemp Int | 0 | 0 | - |
| Taxes | | | |
| Fed Taxes | - | 4,736 | 4,736 |
| Incremental Rate | | | 12% |
| SC Taxes ¹ | - | 244 | 244 |
| Incremental Rate | | | 1% |
| Total Fed + SC | - | 4,980 | 4,980 |
| Incremental Rate | | | 12% |

Any Error Messages will be listed below

Graph Maximum= 60,000

Social Security Income = \$ 20,000

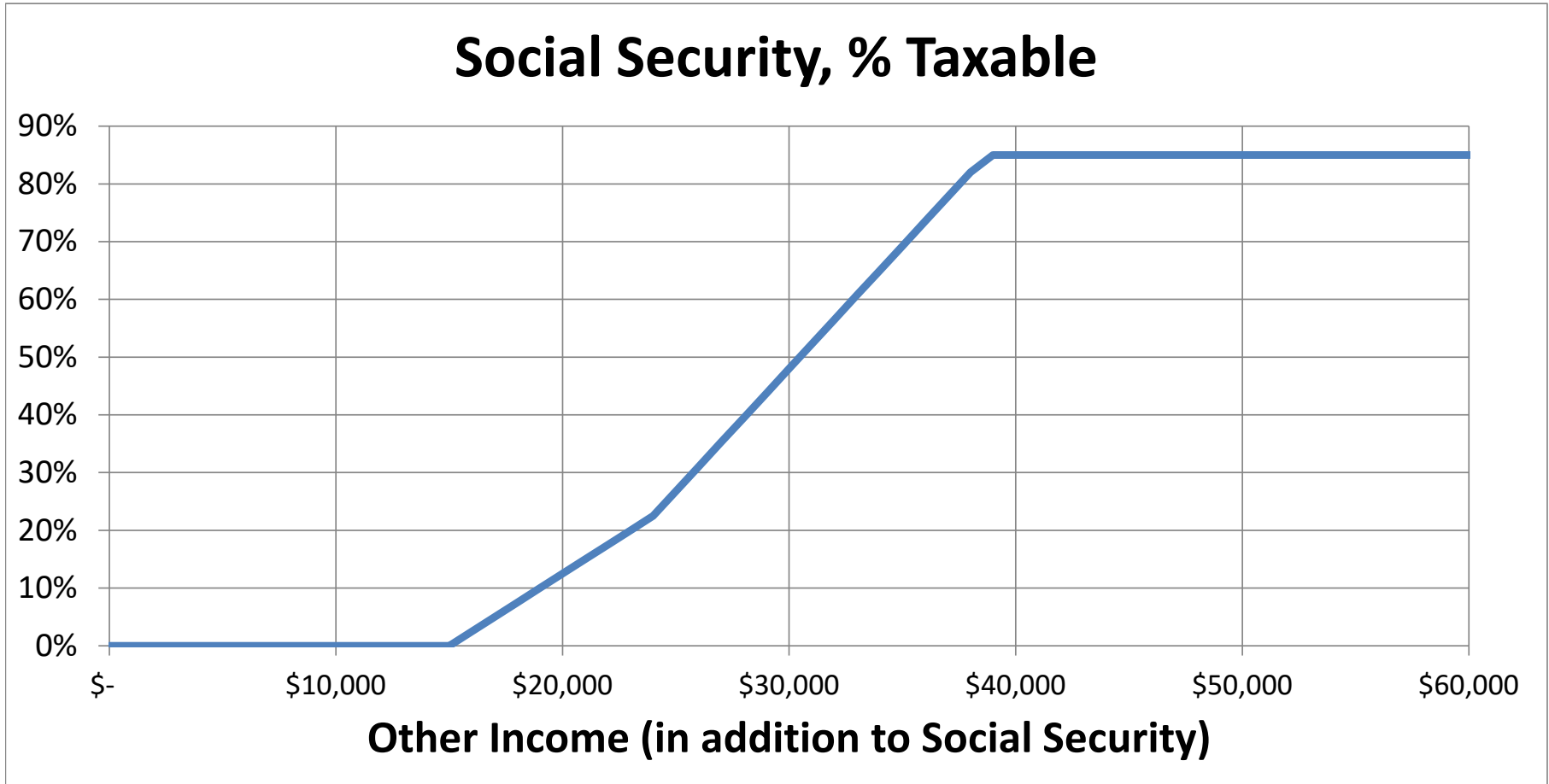
MFJ =

Full Screen: Ctrl+F

Single = **X**

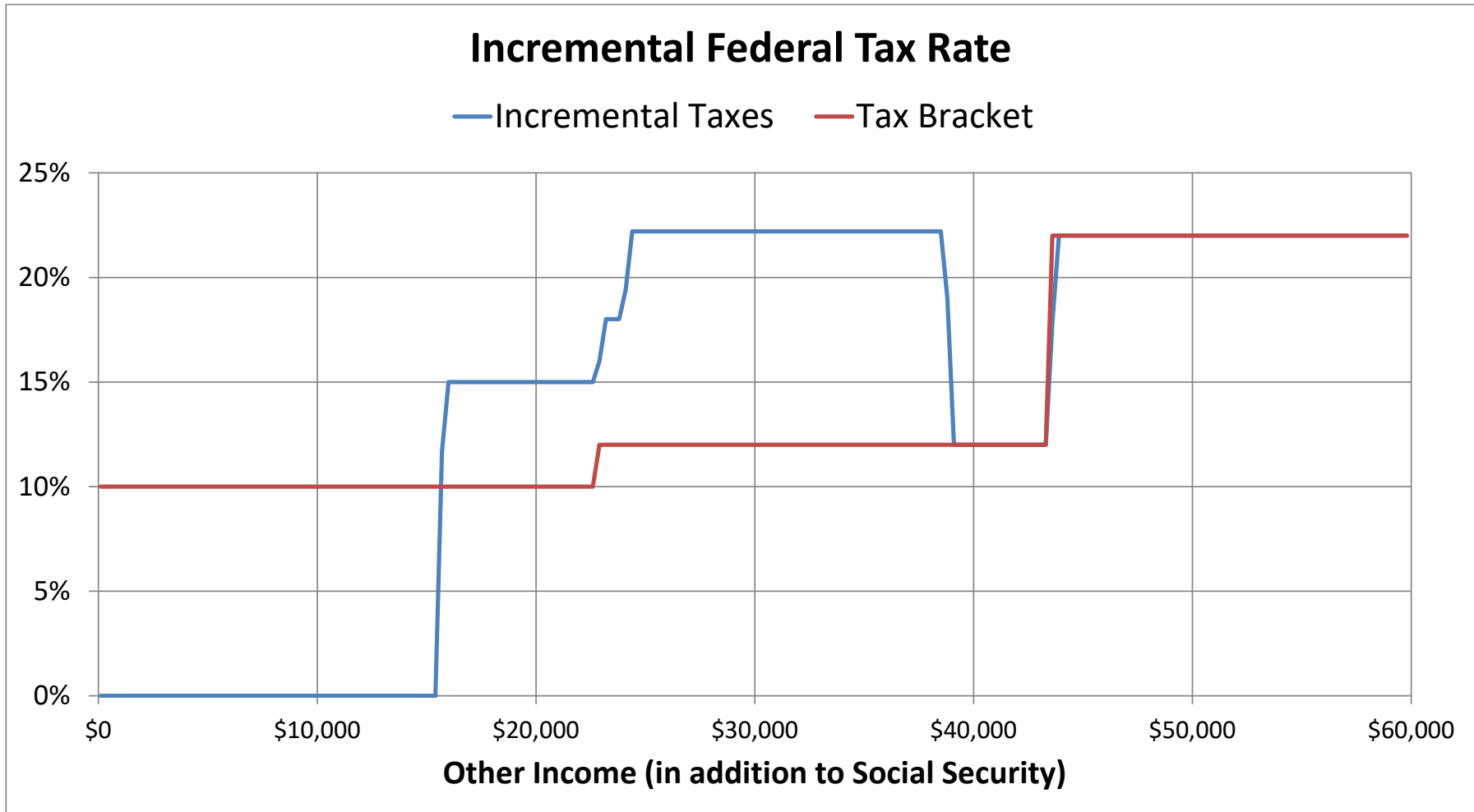
Example

No. 65+ = **1**



Social Security Income = \$ 20,000 MFJ =
 Single = X
 No. 65+ = 1

Why is Incremental Rate important?
 Help decide on taking optional income.
 Ex: May be better to take over 1 year vs.
 2



Wisconsin Taxes

Taxes For Seniors

Wisconsin Taxes

- ▶ Wisconsin taxes start with the federal **Adjusted Gross Income** on Form 1040 and makes various additions, subtractions and credits

Additions to WI Income



- ▶ Municipal interest earned in another state & even most Wisconsin bonds

Subtractions to WI Income



- ▶ Amount of Social Security that shows up as taxable income on the Fed. 1040
- ▶ 30% of long-term capital gains
- ▶ Interest income from federal obligations
- ▶ Contributions to EdVest
- ▶ Insurance premiums (health, dental, vision, long-term care) even if you don't itemize

Wisconsin Credits



- ▶ **School Property Tax Credit**
 - Up to \$300 credit for property taxes or rent paid
 - Property taxes must be paid in the tax year
 - Most should get this credit
 - Exception: If you live in property–tax exempt property (some nursing homes and subsidized housing)

- ▶ **Itemized deduction credit**
 - Always enter mortgage interest, charitable donations, and large medical expenses to see if you qualify, even if you don't itemize for federal
 - 5% credit in excess of the “standard” deduction

New for 2023: Capital Losses

- ▶ Prior to 2023, Wisconsin limited capital losses to \$500
 - If federal capital losses were \$3000, this would show as an addition for Wisconsin of \$2500
 - As a result, Wisconsin and federal carryover losses could be different
- ▶ Starting with 2023, Wisconsin allows the federal \$3000 capital loss
 - Make sure you still capture prior Wisconsin capital carryover losses (if any) from Schedule WD

Wisconsin Taxes

QUESTIONS?

COMMENTS?

Types of IRA's: Tax purposes

Pay Me (Uncle Sam) Now



Pay Me (Uncle Sam) Later



Types of IRA's: Tax purposes

▶ Traditional

Pay Me Later



- Money that went in was before-tax or tax deductible
- Money that comes out is fully taxed
 - Unless after-tax contributions were made (or rolled over). Requires Form 8606 every year
- Minimum distributions required after certain age

Types of IRA's: Tax purposes

▶ Roth

Pay Me Now



- Money that went in was after-tax or not tax deductible
- Money that comes out is tax-free
 - If established for at least 5 years (for the earnings part)
- No minimum distributions for account holder

Required Minimum Distributions

For Account Holders

-Traditional IRA, 401-K, 403(b), 457(b) but not Roth IRA

| If you were: | As of: | Age for RMD to start ¹ |
|--------------|-------------------|-----------------------------------|
| 70 ½ | Prior to 2020 | 70 ½ |
| 72 | 2020–2022 | 72 |
| 72 | 2023–2032 | 73 |
| 74 | After 2032 | 75 |

¹ start by April 1 following year

For Inherited Accounts² after 2019 (including Roth IRA's):

- Generally must empty account by end of 10th year following year of death
- May have RMD's for years 1-9 if account holder passed their RMD beginning date (but IRS waived this for 2023)

² special rules apply to spouse and certain beneficiaries

NEW

Changing Custodians



- ▶ Two ways to change where your IRA's are held:
 1. Rollover:
 - You get the money and deposit into the same type of IRA within 60 days
 2. Trustee Transfer:
 - You direct the trustee to transfer to the other trustee

Better

IRA Conversions

- ▶ Converting from traditional to a Roth
 - The amount is taxable in the year of the conversion
 - The conversion can be done either by:
 - Rollover or
 - Trustee **Much Better**
 - Once converted, it cannot be “unconverted”

Converting from Retirement Plan¹ (RP) to a traditional IRA

- ▶ Cover your “basis”
 - Some money in an RP (particularly older ones) may have been contributed after-tax
 - When rolling over an RP, these after-tax contributions can either be:
 - Tracked as a “non-deductible” part of the traditional IRA or
 - Received tax-free or rolled into a Roth **Better**

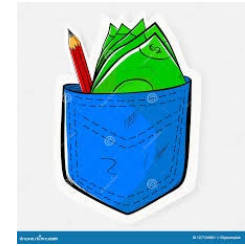
¹ 401-K, 403-B, 457-B

Qualified Charitable Distribution

- ▶ Why is it worthwhile?
 - Reduces taxable income even if you don't itemize
 - Can be used to satisfy RMD's
- ▶ Only applies to traditional IRA's
- ▶ Allowed if contributor is 70 ½ or older
- ▶ Maximum of \$100,000 per year per person
- ▶ Funds must go directly to charity and not pass through donor's hands.
 - Custodian sends electronic funds or check directly to charity
 - You write a check from your IRA account (if permitted by custodian and cashed by year end)



Withholding and Estimated Taxes



- ▶ The IRS considers withholding to have been paid equally throughout the year
 - This is true even if withholding was taken as a lump sum at the end of the year
- ▶ This means you can take an IRA distribution at the end of the year with withholding vs. making quarterly estimated tax payments
 - Should have a good estimate of tax liability by then

IRA's and Retirement Accounts

QUESTIONS?

COMMENTS?

Energy Efficient Home Improvement: Summary



- ▶ For equipment that meets new energy standards (not all Energy Star qualifies):
 - Exterior doors, windows, skylights and insulation materials
 - Central air conditioners, water heaters, furnaces, boilers and heat pumps
 - **Home energy audits**
- ▶ Credit of **30%** the cost of:
 - Equipment plus installation: HVAC and water heaters
 - Materials only: Insulation and windows/doors

Energy Efficient Home Improvement: Rules



- ▶ How do you know if it qualifies?
 - Manufacturers must certify with statements in product packaging or on their web site
 - Or check that it is on the list of Highest Tier products www.ahrinet.org/certification/cee-directory or www.energystar.gov/about/federal_tax_credits/non_business_energy_property_tax_credits
 - Homes used as a residence, no new homes:
 - Primary residence: Windows/Doors, Insulation, Energy Audit
 - Primary or Secondary residence: Heating, AC, Water Heaters

Energy Efficient Home Improvement: Credit Limits



| Item | 2022 limit | 2023 limit |
|-----------------------------------------------|------------|---------------------------|
| Heat pumps | \$300 | \$2,000 |
| A/C or furnace | \$300 | \$600 ¹ |
| Water heater | \$150 | \$600 ¹ |
| Electric panel upgrade for new electric equip | N/A | \$600 ¹ |
| Doors (each, total) | | \$250, \$500 ¹ |
| Windows | \$200 | \$600 ¹ |
| Energy Audits | N/A | \$150 ¹ |
| Lifetime limit | \$500 | None |

<https://www.irs.gov/pub/taxpros/fs-2022-40.pdf>

¹ Max total / yr = \$1,200

Some of these may also have a Wisconsin "Focus on Energy" credit. <https://focusonenergy.com/blog/ira-federal-tax-credits>

Residential Clean Energy Credit



- ▶ Includes items that supply power like:
 - Solar Panels
 - Solar water heaters
 - Fuel cells
 - Wind turbines
 - **Battery storage**
- ▶ 30% credit, generally no maximum
- ▶ Certification required, labor included, carryforward of unused credit

ENERGY CREDITS

QUESTIONS?

COMMENTS?



1099-K (maybe?)

- ▶ 1099-K may be issued by 3rd party networks (Venmo, e-Bay, PayPal, StubHub, Ticketmaster, Etsy). Not Zelle.
- ▶ Should only be issued for sale of “goods or services”
- ▶ Cumulative threshold was lowered from \$20,000 to **\$600**
- ▶ Was to be effective for 2022 but delayed to 2023

1099-K: Handling



1. If you actually made a profit (e.g. ticket sale)



- Report as a capital gain (reference 1099-K in description)
- Include cost of sale (fees, etc) in basis

2. If you sold at a loss (e.g. household item)



- Report on Schedule 1, Part I, line 8z, Other Income as “1099-K Personal Item sold at loss”
- Also on Part I, line 24z, Other Adjustments as “1099-K Personal Item sold at loss”

3. If a personal expense (e.g. reimbursement from friend)

- Same as 2 but as “1099-K Received in Error”



1099-K

QUESTIONS?

COMMENTS?

529 Plans: Educational Expenses

▶ Wisconsin Plans

■ EdVest

- Available to everyone, on-line enrollment

■ Tomorrow's Scholar

- Sold through financial advisors

EdVest and Taxes

- ▶ Federal taxes
 - No deduction for current year
 - Money grows tax-free
 - If expenses are used for education, withdrawal is tax-free

- ▶ Wisconsin taxes
 - Same as federal except can get \$3,860 per beneficiary income deduction for 2023 (worth about \$200 per beneficiary)

EdVest Distributions

- ▶ Qualified expenses (that is no tax due)
 - Post-secondary education including graduate school:
 - Tuition and fees
 - Educational materials (books, computer, etc.)
 - Room and board if at least half-time (even “cost of attendance” amount if living at home or off-campus)
 - Up to \$10,000 per year for primary or secondary schools (but not Wisconsin)
 - Expenses for certified apprenticeship plans

EdVest distributions (cont.)

- ▶ What happens if beneficiary does not use for education?
 - You can withdraw money but will owe taxes on earnings (Federal and Wisconsin) and additional 10% on earnings for Federal
 - You can transfer funds for another beneficiary
 - **NEW for 2024:** Transfer to Roth (see next slide)

EdVest and Roth IRA

- ▶ Can convert up to \$35,000 per beneficiary into a Roth for the beneficiary
- ▶ **Rules** (some of these are in flux) :
 - Can only transfer up to the Roth contribution limits each year (\$7,000 for 2024)
 - Rollover per year is limited to the amount of the beneficiary's earned income minus any direct IRA contributions
 - The 529 plan must have been held for the designated beneficiary for at least 15 years
 - Funds (including earnings) contributed in the 5 years prior to the conversion are not eligible

EdVest

QUESTIONS?

COMMENTS?

Taxes for Seniors

OTHER TOPICS

Other Topics

- Hobby Income
- Self-Employment
- Timeshares
- Gambling
- Pensions
- Annuities

Voting Link:

<https://forms.gle/hMuyHjdcCdKa1ZQc1A>

Business or Hobby?

(50 Shades of Grey¹)

Business

Hobby

Paid Tax Preparer

Lawnmower repair

Woodworking

Wildlife Photography

Golfing

¹ **Not** related to the book of the same name

Business or Hobby?

Intent to make a profit



IRS Reg. Sec. 1.183-2(b)

1. Activity conducted in business-like manner.
2. Expertise.
3. Time and effort.
4. Expectation assets (if any) will increase in value.
5. Success in similar activities.
6. History of profits and losses.
7. Amount of occasional profits (vs. losses)
8. Profits vs. other income.
9. Elements of personal pleasure or recreation.

Business or Hobby?



- ▶ IRS “Safe Harbor” definition for a business
 - Assumed to be a business if made a profit in 3 out of the past 5 years (including current)

Business or Hobby?

Why does it matter?

- ▶ If a Business (Schedule C):
 - + Can deduct expenses
 - + Can show a loss
 - Must pay self-employment tax on profits

Business or Hobby?

Why does it matter?

- ▶ If a Hobby (line 8j on 1040–Schedule 1):
 - Must report all income
 - Cannot deduct any expenses
 - + No self–employment tax

Business vs. Hobby

QUESTIONS?

COMMENTS?

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Self-Employment Tax

The tax your mother never told you about



- ▶ Your share of Payroll Taxes: Social Security and Medicare taxes
 - Unlike W-2 wages, you have to pay the employer and the employee share
 - This is not an income tax, it is in addition to income tax (“Other Taxes” on 1040 roadmap).
 - ½ amount paid is an “Adjustment” to AGI
 - Does not apply if income < \$400
 - Have to pay even if have no taxable income

BOTTOM LINE: SE Tax is about 11-12% of self-employment income

1099-NEC: ticking tax bomb



- ▶ You are considered an independent contractor
- ▶ No income tax withholding
- ▶ Payroll taxes (self-employment tax)
 - You pay everything
 - Paid when you file your income taxes

Example 1099-NEC

CORRECTED (if checked)

| | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. ABC Company 800 Payne Avenue Indianapolis, IN 46204 | | OMB No. 1545-0116 Form 1099-NEC (Rev. January 2022) For calendar year 20__ | Nonemployee Compensation Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported. |
| PAYER'S TIN 26-0XXXXXX | RECIPIENT'S TIN 212-XX-XXXX | 1 Nonemployee compensation \$ 1637.00 | |
| RECIPIENT'S name Joe Taxpayer | | 2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/> | |
| Street address (including apt. no.) 123 Main St | | 3 | |
| City or town, state or province, country, and ZIP or foreign postal code Madison, WI 53711 | | 4 Federal income tax withheld \$ | |
| Account number (see instructions) | | 5 State tax withheld \$ 6 State/Payer's state no. | 7 State income \$ |

Form **1099-NEC** (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Backup
 Withholding for
 those without
 social security no.

1099-NEC: 1040 Roadmap



- ▶ Income flows via Schedule C
- ▶ Social Security/Medicare taxes (self-employment tax)
- ▶ Adjustment allowed for self-employed health insurance



1099-NEC: Example

- ▶ \$10,000 Income 1099-NEC
 - ▶ Other income such that in 15% tax bracket
 - ▶ Taxes associated with 1099-NEC income:
 - \$1,500 (income tax)
 - \$1,415 (payroll tax, net of SE adjustment)
-
- **OVERALL FEDERAL TAXES = 29%**

Self Employment

QUESTIONS?

COMMENTS?

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Time Shares



- ▶ If you rent out your timeshare, you probably have rental income
- ▶ You can deduct a pro-rated share of expenses
- ▶ There are rules for whether it counts as 2nd residence
- ▶ [See link for more details](#)

Time Shares

QUESTIONS?

COMMENTS?

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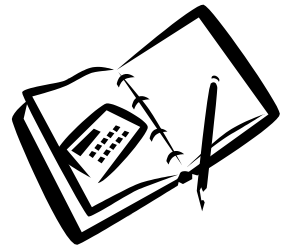
Gambling



- ▶ Winnings are taxable
 - If you win **big**, you will get a **W-2G**
 - 1040 Schedule 1, line 8b
- ▶ Losses can be used to offset winnings **but**
 - Only up to total winnings **and**
 - You must itemize
 - (Can net per-session winnings)

Gambling

- ▶ Keeping a record of your losses:
 - You must keep a diary or similar record:
 - Date and type of wagering
 - Name and address of establishment
 - Names of other persons with you
 - Amount you won or lost
 - Casino may provide year-end statement if you use your loyalty card for secondary information



Gambling (Wisconsin taxes)

- ▶ Wisconsin only allows offsetting losses during the same “session”

For example, you play the following gambling sessions during 2022:

| Session | Date | Money In | Money Out | Gain (Loss) |
|---------|------------|----------|-----------|-------------|
| 1 | 2/2/2022 | \$ 500 | \$ 700 | \$ 200 |
| 2 | 5/12/2022 | \$ 1,000 | \$ 600 | \$ (400) |
| 3 | 9/18/2022 | \$ 300 | \$ 1,000 | \$ 700 |
| 4 | 11/25/2022 | \$ 1,200 | \$ 300 | \$ (900) |

The amount you report as taxable Wisconsin income is \$900, the total amount of gains for the year. You cannot net your losing sessions with your winning sessions for purposes of figuring your taxable Wisconsin income.

Gambling

QUESTIONS?

COMMENTS?

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Taxes for Seniors

Pensions

Traditional Pensions

▶ How are they taxed?

Fully taxable EXCEPT:

- Employee contributions
- How do you know?



1099-R to the rescue



| | | | | | | |
|----------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------|--|--------------------------------------------------------|---------|-------------------------------------------------------------------------------------------------------------|
| PAYER'S name, street address, city, state, and ZIP code | | 1 Gross distribution | | OMB No. 1545-0119 | | Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. |
| | | \$ | | 2012 | | |
| | | 2a Taxable amount | | | | |
| | | \$ Empty | | Form 1099-R | | Copy 1 For State, City, or Local Tax Department |
| | | 2b Taxable amount not determined <input checked="" type="checkbox"/> | | Total distribution <input type="checkbox"/> | | |
| PAYER'S federal identification number | RECIPIENT'S identification number | 3 Capital gain (included in box 2a) | | 4 Federal income tax withheld | | |
| | | \$ | | \$ | | |
| RECIPIENT'S name Street address (including apt. no.) City, state, and ZIP code | | 5 Employee contributions /Designated Roth contributions or insurance premiums | | 6 Net unrealized appreciation in employer's securities | | |
| | | \$ | | \$ | | |
| | | 7 Distribution code(s) | | IRA/SEP/SIMPLE <input type="checkbox"/> | 8 Other | |
| | | \$ | | \$ | | |
| | | 9a Your percentage of total distribution % | | 9b Total employee contributions | | |
| | | \$ | | \$ | | |
| 10 Amount allocable to IRR within 5 years | 11 1st year of desig. Roth contrib. | 12 State tax withheld | | 13 State/Payer's state no. | | 14 State distribution |
| \$ | | \$ | | | | \$ |
| | | \$ | | | | \$ |
| Account number (see instructions) | | 15 Local tax withheld | | 16 Name of locality | | 17 Local distribution |
| | | \$ | | | | \$ |
| | | \$ | | | | \$ |

Form 1099-R

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

Real Life: Henry and Ruth¹

▶ Situation

- Henry retired in 1995
- He had a pension from OPM (Office of Personnel Management)
- Both had social security.
- Other income was \$25,000
- Received the following 1099-R



¹ Not their real names (nor photos)



PAID BY OFFICE OF PERSONNEL MANAGEMENT
 RETIREMENT OPERATIONS
 P.O. BOX 45
 BOYERS, PA 16017-0045

STATEMENT OF ANNUITY PAID
 Copy 2 - To be filed with annuitant's
 state or local return

2012

OMB No. 1545-0119
 Form: 1099-R
 Distributions From
 Pensions, Annuities,
 Retirement or Profit-
 Sharing Plans, IRAs,
 Insurance Contracts, etc.

Form CSA 1099R (Rev. 1/2013)
 This information is being furnished to the
 Department of Treasury - Internal Revenue Service

| | | |
|--------------------------------------------------------------------------------------------------|--------------------------------|---------------------------------------|
| PAYER's Federal Identification 52-6083699 | Recipient's ID No. (Annuitant) | Account number (Retirement Claim No.) |
| 5. Employee Contributions/ Designated Roth Contributions or Insurance Premiums NONE | PAID TO → | |
| 7. Distribution Code(s) 7-NONDISABILITY | | |
| 9b. Total Employee Contributions 30642.00 | | |

| | |
|--------------------------------------------------|-----------------------------|
| 1. Gross distribution 18768.00 | |
| 2a. Taxable amount UNKNOWN | |
| 4. Federal Income Tax Withheld 1066.80 | |
| 12. State tax withheld NONE | 13. State/Payer's state no. |
| 12. State tax withheld NONE | 13. State/Payer's state no. |

To separate, tear on perforation

Real Life: Henry and Ruth

▶ Tax implication

- In previous years, Henry's tax preparer did not do the special calculation to exclude his contributions
- Correctly excluding his contribution resulted in tax savings of \$225. Plus also amended 3 prior years with additional savings of \$200–250 / year.
 - Total Savings about \$700
 - IRS paid interest on the amended amounts



Real Life: Henry and Ruth

- ▶ What does this mean to you?
 - If you are drawing a regular pension, review your 1099-R. If there is an amount in box 9b (Employee contributions) and box 2a (Taxable amount) is blank, make sure you or your tax preparer correctly excludes the non-taxable amount.



Disability pension

- ▶ Generally code “3” in box 7 of 1099-R
- ▶ Where to include?
 - As “Wages” if less than normal retirement age
 - As “Pension” if past retirement age
- ▶ Military disability pensions have special rules
 - May be partially or totally excludable from all taxes
 - See Pub 525, pp. 15&17 for rules

PENSIONS

QUESTIONS?

COMMENTS?

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Taxes for Seniors

Annuities

Annuities: What are they?



Contract between you and an insurance company (typically)



You give them money and they invest it and give you (some?, all?, more?) money back

Types of Annuities

- ▶ Fixed
- ▶ Variable
- ▶ Immediate
- ▶ Equity-indexed
- ▶ ...



Types of Annuities: Tax purposes

Pay Me (Uncle Sam) Now



Pay Me (Uncle Sam) Later



Types of Annuities: Tax purposes

▶ QUALIFIED

Pay Me Later



- Money that went in was before-tax or tax deductible
- Money that comes out is fully taxed
- Usually held in an conventional IRA or set up by an employer as a retirement plan

Types of Annuities: Tax purposes

▶ NON-QUALIFIED

Pay Me Now



- Money that went in was after-tax or not tax deductible
- Money that comes out is partially taxed
 - Your contributions are returned tax-free

Annuities, Non-Qualified

▶ The importance of BASIS

Return of what you
contribute (BASIS)



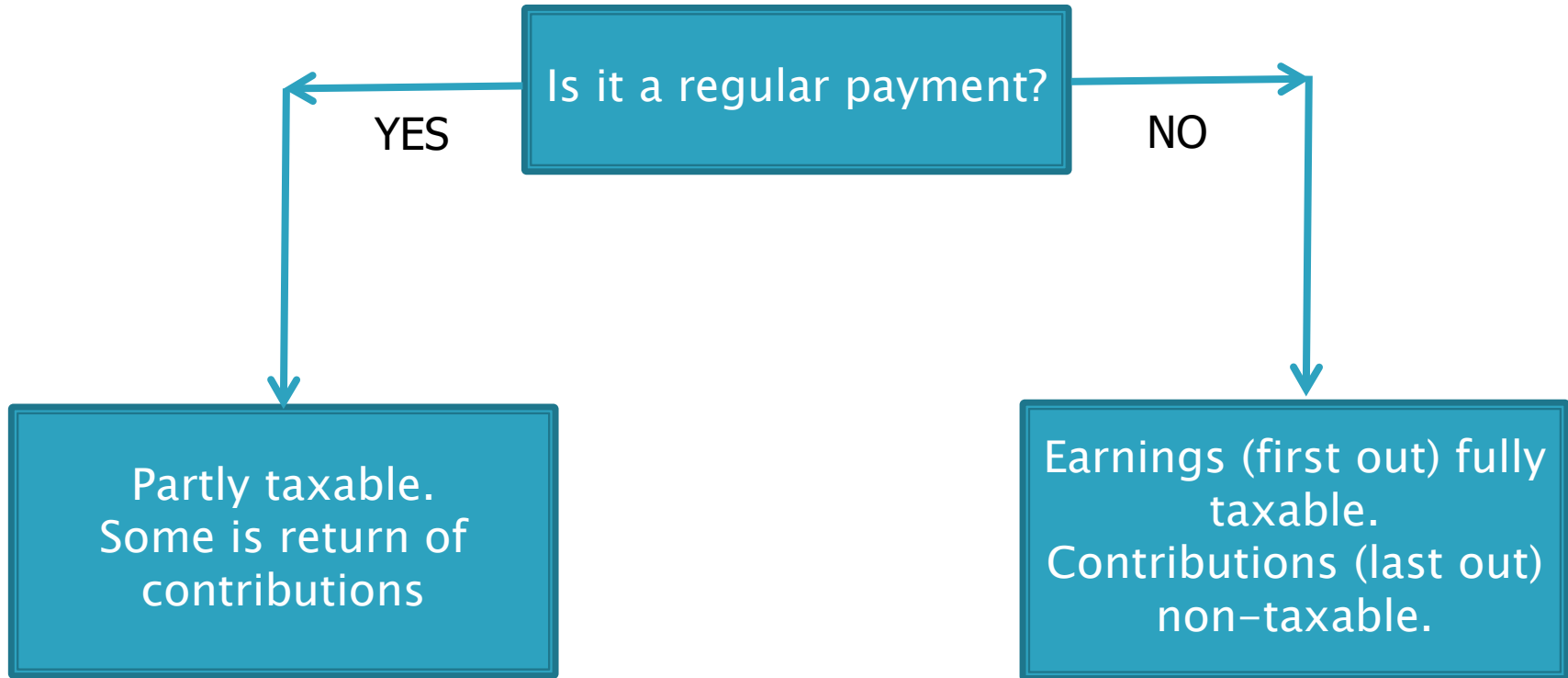
**NOT
TAXED**

Money you earn

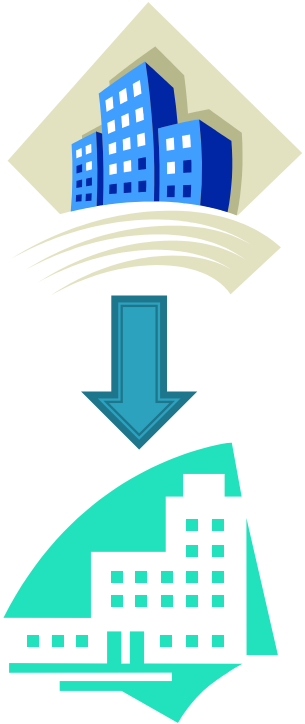
TAXED

Annuities, Non-Qualified

How much is taxable?



Real-Life: Betty¹



- ▶ Had a non-qualified annuity from Company Blue.
- ▶ Transferred the annuity to Company Green
 - This is called a 1035 exchange

¹ Not her real name (nor photo)

Real-Life: Betty



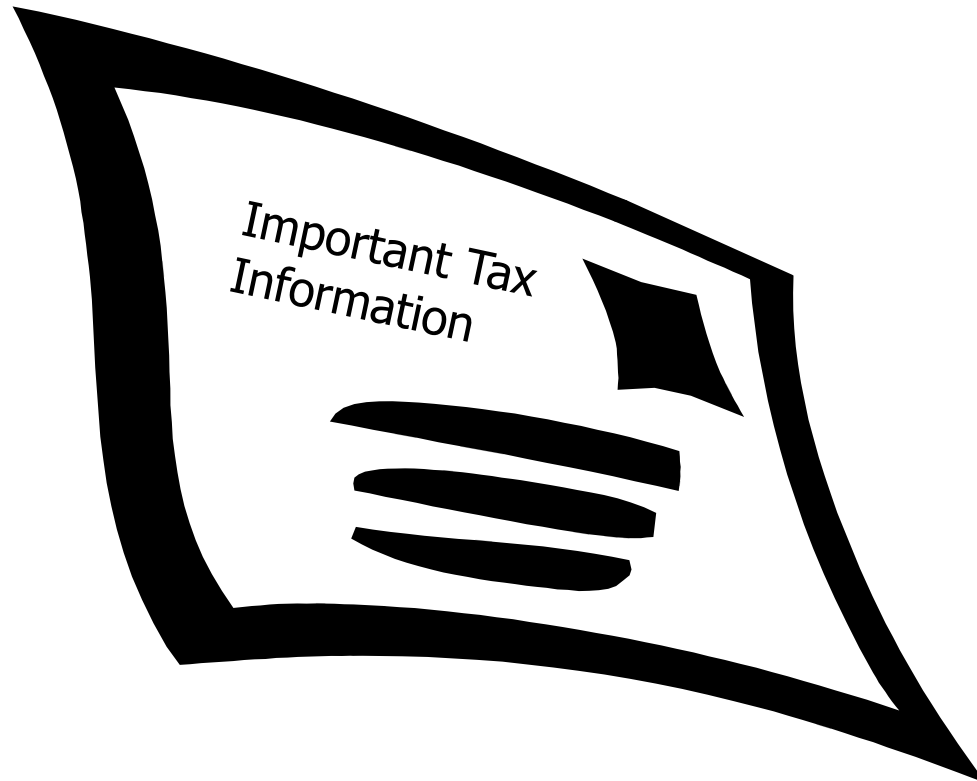
- ▶ Some years later, cashed out the annuity from Company Green



Real-Life: Betty



- ▶ Company Green sent Betty a 1099-R in January the following year

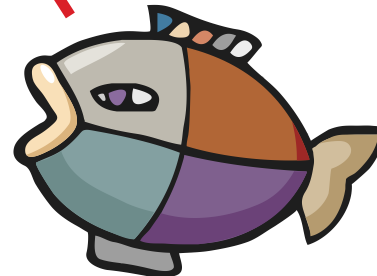




VOID CORRECTED

| | | | | | |
|-------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------|
| PAYER'S name, street address, city, state, and ZIP code Company Green | | 1 Gross distribution \$ 19,200.55 | OMB No. 1545-0119 2012 | | Distribution Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. |
| | | 2a Taxable amount \$ 19,200.55 | Form 1099-R | | |
| | | 2b Taxable amount not determined <input type="checkbox"/> | Total distribution <input checked="" type="checkbox"/> | | |
| PAYER'S federal identification number | RECIPIENT'S identification number | 3 Capital gain included in box 2a) \$ | 4 Federal income tax withheld \$ | | Copy 1 For State, City, or Local Tax Department |
| RECIPIENT'S name Betty | | 5 Employee contributions /Designated Roth contributions or insurance premiums \$ | 6 Net unrealized appreciation in employer's securities \$ | | |
| Street address (including apt. no.) | | 7 Distribution code(s) 7 | IRA/SEP/SIMPLE <input type="checkbox"/> | 8 Other \$ % | |
| City, state, and ZIP code | | 9a Your percentage of total distribution % | 9b Total employee contributions \$ | | |

What looks fishy?



Real-Life: Betty



What Happened?



TO: Company Green



To Whom It May Concern:

We are in receipt of a surrender request from your company. In accordance with TEFRA rules and regulations regarding I.R.C. 1035 non-qualified exchanges, we are providing you with the following information to establish complete records for each participant:

| | |
|-----------------------------------------------|-------------|
| 1) Principal contributed on or before 8/13/82 | \$0.00 |
| 2) Earnings on the Pre-TEFRA principal | \$0.00 |
| 3) Principal contributed after 8/13/82 | \$0.00 |
| 4) Earnings on the Post-TEFRA principal | \$33,105.11 |
| 5) Total amount exchange | \$33,105.11 |

If you have any questions please contact

Sincerely,
Contract Management Team
Company Blue

[Click here for definition](#)

TO: Company Green

CORRECTED



To Whom It May Concern:

We are in receipt of a surrender request from your company. In accordance with TEFRA rules and regulations regarding I.R.C. 1035 non-qualified exchanges, we are providing you with the following information to establish complete records for each participant:

| | |
|-----------------------------------------------|-------------|
| 1) Principal contributed on or before 8/13/82 | \$0.00 |
| 2) Earnings on the Pre-TEFRA principal | \$0.00 |
| 3) Principal contributed after 8/13/82 | \$18,800.10 |
| 4) Earnings on the Post-TEFRA principal | \$14,305.01 |
| 5) Total amount exchanged | \$33,105.11 |

If you have any questions please contact

Sincerely,
Contract Management Team
Company Blue



VOID CORRECTED

| | | | | | |
|-------------------------------------------------------------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| PAYER'S name, street address, city, state, and ZIP code Company Green | | 1 Gross distribution \$ 19,200.55 | | OMB No. 1545-0119 2012 Form 1099-R | Distribution Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. |
| | | 2a Taxable amount \$ 320.45 | | | |
| | | 2b Taxable amount not determined <input type="checkbox"/> | | Total distribution <input checked="" type="checkbox"/> | |
| PAYER'S federal identification number | RECIPIENT'S identification number | 3 Capital gain (included in box 2a) \$ | 4 Federal income tax withheld \$ | | Copy 1 For State, City, or Local Tax Department |
| RECIPIENT'S name Betty | | 5 Employee contributions /Designated Roth contributions or insurance premiums \$ 18,880.10 | | 6 Net unrealized appreciation in employer's securities \$ | |
| Street address (including apt. no.) | | 7 Distribution code(s) 7 | IRA/SEP/SIMPLE <input type="checkbox"/> | 8 Other \$ % | |
| City, state, and ZIP code | | 9a Your percentage of total distribution % | | 9b Total employee contributions \$ | |

RESULT: Correction saved \$6,300 in fed. + state taxes

Real-Life: Betty



- ▶ What does this example mean for you?
 - If you receive payments from a non-qualified annuity, make sure your 1099-R makes sense. Should some of the amount be non-taxable?
 - If you transfer your annuity between companies, the transmittal letter should show your BASIS.

ANNUITIES

QUESTIONS?

COMMENTS?

[Back to List](#)