

2008 Tax Tips and Topics

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The old adage says “In the spring, a young man’s thoughts turn to love.” Well, the thoughts of many active and older adults turn to taxes. Here are some common tax questions and explanations. [**Caution:** This article is intended only to give current general information and is not intended to be, and cannot be taken as, tax advice. These laws and rules change frequently, and you should seek professional advice regarding your specific questions.]

Will my heirs have to pay taxes on my estate when I die?

In Mississippi, there is no “inheritance tax” payable by the recipients of an inheritance. There may be, however, an “estate tax” payable by the estate itself. Your estate (not the heirs) will pay estate tax **if** your “net estate” is greater than a certain limit (the “exclusion amount”) in the year of your death (\$2 million in 2008, and \$3.5 million in 2009). In 2010, there will be no estate tax, but it is currently scheduled to be reinstated in 2011 with a \$1 million exclusion amount. Your “net estate” is the value of all real estate, personal property, money accounts and life insurance you own, minus your debts, probate costs, charitable gifts and the value of all assets left to a surviving spouse. Federal estate tax is payable within nine (9) months after death.

I can only give my kids \$10,000 per year, right?

Gift tax is payable, if applicable, by the giver, NOT the recipient. Federal gift tax rules allow you to give up to \$12,000 (or \$24,000 by a married couple) (2008 figures) per person per year to anyone, without requirement of filing any gift tax return or paying any gift tax. Gifts of more than \$12,000 per year per person require you to file a gift tax return to report such gift. However, no gift tax will be payable on any gifts you make if your net estate is less than the estate tax “exclusion amount” (see section above), or \$2 million in 2008.

Will I pay income tax on the sale of my home?

You may exclude from taxable income up to \$250,000 (\$500,000 for married couple) of the “gain” realized on the sale of your principal residence, provided you owned and used the home as a principal residence for at least 24 months (730 days) during the five years before the sale date, **and** did not claim this exclusion for other property within two years before the sale. (“Gain” is generally the difference between your cost basis in the home and your profit from the sale.) A married couple may claim the exemption if **either** spouse owned the property for at least two of the last five years, **both** spouses used the property as a residence for two years or more during the five year period prior to the sale, and **neither** spouse used the exclusion on a sale for two years preceding the sale date. A partial exclusion may be available for a change in employment, health or other unforeseen circumstances causing a sale.

Can I work and still get Social Security benefits?

Social Security recipients age 62-64 will lose \$1.00 in Social Security benefits for every \$2.00 earned over the *earned* income limit of \$13,560 (2008). In the year you reach *full retirement age* (65, or older depending on birthdate), benefits are reduced \$1 for each \$3 earned above the limit of \$36,120 (2008) but only before the month you reach full retirement age. Those who reach full retirement age can have unlimited earnings without a reduction in their Social Security benefits. Only self-employment and wage income are considered (up to a maximum of \$102,000) – passive income is not considered.

What are the tax results if I deed my house to my children?

If you deed your home to your children, they will also receive your “tax basis” (that is, your cost of the property plus the cost of improvements made to the property). This means that when they sell the home, they must pay income tax on the difference between what you paid for the home and the sale price they receive. However, if they inherit the home from you and later sell it, they will pay tax only on the difference between the value of the home *at your death* and the sale price they receive. (This also results if you deed the home to the children and retain a life estate.) These inheritance basis rules will change after 2009.

What’s the best way to pay an in-home caregiver for a family member?

Paid caregivers can provide care for disabled family member and respite for the family from such responsibilities. Caregivers may be found through agencies, with payment made to the agency to cover the wages, taxes, insurance and benefits of the attendant. However, non-agency caregivers will often request payment in cash and will agree to pay their own insurance and taxes as “independent contractors”. This is rarely the correct method. Whether a caregiver is an “independent contractor” (responsible for paying their own taxes) or an “employee” (for whom the employer must withhold and pay unemployment and income taxes) depends on such factors as: control by the employer over the hours and details of the work; whether the employee is in a distinct licensed occupation; whether the employer supplies the tools and place of work; the length of employment; the method of payment, whether by the time or by the job; and whether the work is part of the regular business of the employer. Courts have often found domestic caregivers to be employees rather than independent contractors. In such event, tax and unemployment agencies will require the employer or employer’s estate to pay income and unemployment taxes that were not withheld and penalties for non-payment. If you employ caregivers directly, consult your accountant about the proper arrangement.

Can I deduct my premiums for long-term care insurance?

Premiums of “tax-qualified” long-term care policies (the most common type) are deductible along with other medical expenses. The maximum deduction amount, based

on the age of the insured, is as follows: age 40 or younger - \$310; age 41 to 50 - \$580; age 51 to 60 - \$1,150; age 61 to 70 - \$3,080; over 70 - \$3,850.

Also deductible are premiums for the taxpayer's spouse and dependents. A self-employed person may deduct 100% of the premiums as a business expense. Therefore, for example, a 51-year-old self-employed person may deduct up to \$1,150 in long-term care insurance premiums and a like amount for his or her spouse and dependents.

Are expenses for assisted living or nursing home care for a spouse or parent tax deductible?

You can deduct medical expenses actually paid during the year for yourself, your spouse, and your dependents, if total medical expenses exceed 7.5 percent of your adjusted gross income. Deductible expenses include: (1) payments made for nursing services; (2) the cost of long-term (nursing home) care, including housing, food, and other personal costs, if you are "chronically ill" (that is, require assistance with at least two activities of daily living, such as eating, bathing, dressing, toileting, or transferring, or substantial supervision due to a severe cognitive impairment, such as dementia); (3) costs of necessary medical equipment or improvements installed in a house, unless they increase the value of your home; (4) the portion of a lump-sum fee required by a retirement home for medical care to be provided. A "dependent" is an immediate family member (including in-laws) or someone who has lived with you for a year, and you must have provided more than half of that person's support for the year (or more than 10 percent of their support along with others who also support the resident, and all sign an IRS Multiple Support Declaration.) Check *IRS Publication 501, Exemptions, Standard Deduction, and Filing Information* for details and examples.