51 Monroe St, Suite 1902, Rockville, MD 20850

Memorandum

Date: December 4, 2023

To: Joe Rinaldi, President

From: Junyuan Chen, Senior Research Intern

Re: Tax Deductions That Seniors Often Overlook

As we approach the upcoming tax season, it is essential to bring attention to valuable tax deductions that seniors may be overlooking. The complexity of the tax code and frequent changes in tax exemptions contribute to seniors missing out on potential savings. Since 2017, five major tax-law changes, including the Trump-era Tax Cuts and Jobs Act, the pandemic-era Cares Act, and President Biden's Inflation Reduction Act, have introduced new tax breaks, altered existing ones, and added complexity to the tax-filing process.

Here are four often-overlooked tax deductions for seniors:

1. **Extra Standard Deduction:**
   - Seniors aged 65 or over are eligible for an extra standard deduction in addition to the regular deduction.
   - For the 2023 tax year, the extra standard deduction is $1,850 for single filers or heads of households, and $3,000 for married couples filing jointly, where each spouse is 65 or over.
   - Total standard deduction increases to $15,700 for single filers and $30,700 for married couples filing jointly.
   - Specific IRS rules apply, and seniors must meet certain qualifications.

2. **IRA Contributions by a Spouse:**
   - Spousal IRAs allow contributions to a non-working or low-earning spouse's individual retirement account.
   - Married couples filing jointly can contribute $6,500 per individual for a total of $13,000 in the 2023 tax year, with an additional catch-up contribution of $1,000 per individual for those aged 50 and older.
   - IRS guidelines include requirements for earned income, joint tax filing, and no age limit as long as at least one person has earned income.

3. **Qualified Charitable Distributions:**
   - Individuals over 70.5 can transfer up to $100,000 annually from their traditional IRA directly to a qualified charity tax-free.
   - Married couples filing jointly can donate $200,000 annually.
   - Contributions must be made to qualified 501(c)(3) charities, excluding donor-advised funds.
   - QCDs provide a valuable tax break for seniors and can help lower taxable income.

4. **Medicare Premium Deduction:**
   - Retirees who are self-employed can deduct Medicare premiums, including Part B, D, and the cost of supplemental Medicare Advantage plans.
   - This deduction is not subject to the 7.5% of adjusted gross income test that applies to itemized medical expenses.
   - Special rules apply for business ownership and health insurance coverage.