What the article didn't mention was that to pay those medical expenses, seniors had to take money out of their retirement, which was taxable, for a medical expense that would probably not be deductible. That didn't make any sense to me, so I devised a plan.

A majority of my clients have, what is considered a "high deductible" health insurance plan. Today they are relatively healthy, and they don't use their insurance, but I bring up that they can contribute money to a health savings account (HSA). This is usually met with resistance. The client will reply that if they don't use the money in the plan during the year, the money will disappear. I explain to them that they are thinking of the HSA's cousin, the flexible spending account (FSA), and any amount in the HSA that isn't used, simply carries over forever, until used.

To qualify for an HSA, if you are single, your deductible has to be $1,350, for a family it is $2,700. If you qualify, and you are under age 50 and single, you can put up to $3,450 into your HSA. If you are under age 50, and you have a family, you can put up to $6,800 into your HSA. If you are 50 or older, there is a special $1,000 catchup contribution that you can make.

Regardless of adjusted gross income (AGI), the contribution you make to an HSA is an above the line tax deduction. Most HSA's have a mechanism in them, that allow you to invest in mutual funds and stock. The earnings grow tax free, and when you take the money out of the plan, provided it is for medical expenses, it is tax free. If you are just thinking of the tax deduction, this is perfect for the person whose IRA contribution is either limited or not allowed for various reasons. The HSA deduction, works exactly like an IRA deduction.

If you follow my articles, you will know that for the most part, I am a big proponent of converting to C-Corporations. One reason is that in a C-Corporation, unlike an S-Corporation, you can have a health reimbursement account (HRA). The contributions to an HRA have no limits. If you don't have employees, you could

name it a Backdoor Roth Contribution. How this works. Let's say you have a client that wants to put money in a Roth, but their AGI is too high, or they are covered by a retirement plan at work, and they can't make an IRA contribution. What I came up with was this. First of all make the maximum non-deductible IRA contribution. The very next day (this is important), you convert that non-deductible Traditional IRA contribution to a Roth IRA. You are probably saying to yourself that conversions from a Traditional IRA to a Roth are taxable, and you are sort of right. In this case, you made a non-deductible contribution, so you didn't get a tax deduction. The only taxable event would be the earnings that the contribution made before the conversion. Those earnings are taxable. However, if you convert to a Roth the very next day, hardly any earnings would have been made. The end result is that you have money in a Roth. If you keep the money there for five years, and withdrawal it, it is tax free.

Another fringe benefit to think about for C-Corporations is a flexible spending account (FSA) for dependent care. My children are 20 and 16, but I remember when they were younger. Daycare costs were about what my wife made. Eventually, she just stayed at home with our kids, until they could stay home alone. That isn't an option for most people. However, your employer can open an FSA. If you are married filing jointly, single, or head of household, you can get $5,000, tax free, towards your daycare expenses. That won't cover it completely, but it is better than nothing. Not to mention the $5,000 is pre-tax, which will lower your income tax burden.

Another thing that drives me crazy is this. My wife and I had our kids very early. She was 21 and I was 24. I was just out of college and starting my career. My wife and I made next to nothing. However, we made it a priority to save for our kid's college. We are in Florida, and Florida has something called prepaid college. The plan locks in today's tuition, for tomorrow's education. In addition, we put $250 a month in a 529 plan for our first born. When our second child came three years later, we did the same. In order to do this, we had to forgo meals out, vacations, new clothes, cable TV.

If you don't, and you should, give your clients an organizer to fill out before you do a return. If you see an answer that doesn't actually pertain to the return, make a note to follow up after tax season.

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