CPA Practice Advisor

return or better planning might be in your future.

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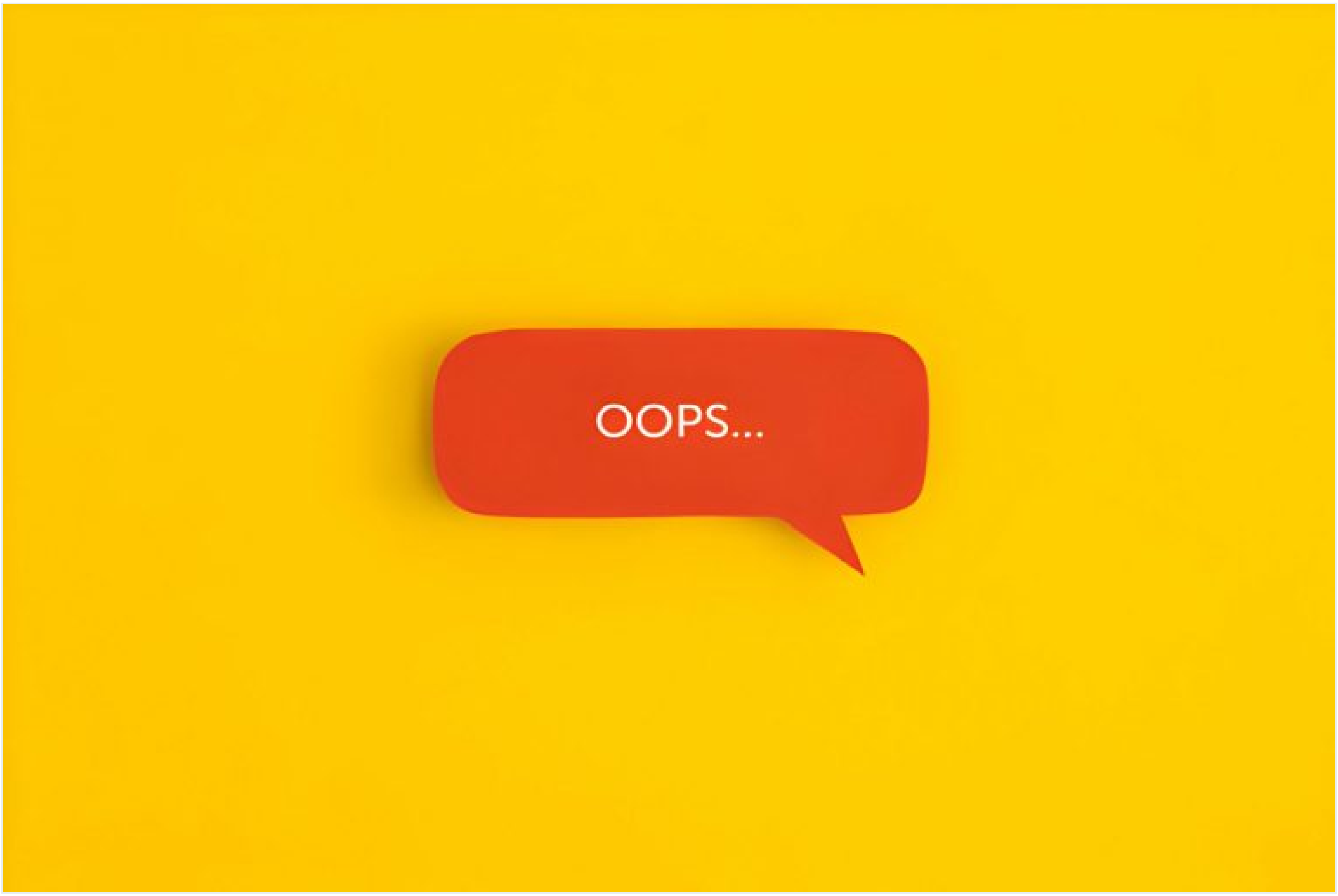

By Evan T. Beach, EA, CFP, AWMA, Kiplinger Consumer News Service (TNS)

The only thing worse than the monotonous task of preparing your tax return, or preparing your CPA to prepare your tax return, is doing it again on an amended return. We work with retirees to help maximize income, minimize taxes and plan their estate. Below are the six most common mistakes we see retirees make when seeking to minimize their lifetime tax burden.

Meet John and Linda. They are a newly retired fictional couple. We will use their

However, they assume that because they have a mortgage, they should itemize deductions. While that was often the case before tax laws changed in 2018, it is no longer. They have been taking the standard deduction for the last few years, which should have a downstream effect on several of the decisions they make.

John and Linda give to their church. They think that there is a tax benefit to this giving. Because they take the standard deduction, there is not. They could instead give appreciated stock and thus avoid capital gains taxes. More on that later.

Linda had a rough 2023, from a medical perspective. She spent an inordinate amount of time calculating the total cost because she believes it will be a deduction. But all you can deduct are the medical costs that exceed 7.5% of your AGI. To determine your itemized deductions total, add up medical costs, mortgage, state and local taxes and charitable donations. Then itemize only if that amount is greater than the standard deduction, which is above $30,000 for couples over 65, in 2023. (For more on this, see the article The Extra Standard Deduction for People Age 65 and Older.)

2. Improperly reporting qualified charitable distributions (QCDs).

Once John and Linda learn that they aren't deriving any tax benefits for their charitable giving, they ask about a strategy their friend told them about: giving from their retirement accounts.

Qualified charitable distributions (QCDs) have been around for a while but have surged in popularity as fewer and fewer people itemize their deductions. Unfortunately, neither John nor Linda is 70½, the minimum age to make a QCD. Neither cracks a smile when I tell them to "be thankful for your youth."

The biggest mistake I see among those who are eligible and who properly make the

You have to report the gross distribution ($40,000) on line 4(a) and the net on line 4(b), of Form 1040. In between those, the letters "QCD" should be written. If you made a QCD and don't see that reflected on your return, reach out to your preparer to make sure it was reported.

3. Getting surprised by taxes via phantom gains or inefficient portfolios.

When I met with John and Linda in 2023, I was reviewing their 2022 return, which had a very large capital gain. Whenever I see this in a down year in the market, I ask what they sold. They told me they didn't sell anything. Upon further review, we found that one of the mutual funds in their joint account had recognized significant capital gains.

Tax treatment within mutual funds passes capital gains, on a pro-rated basis, through to the owner of the fund. So, if the fund manager decides they no longer like Nvidia (NVDA), that gain passes along to you. Making money is still a good thing, and paying taxes is part of that. However, this makes tax planning very unpredictable. So we prefer to hold ETFs and individual stocks in taxable accounts. With these vehicles, you pay taxes when you sell, not when a fund manager does.

4. Selling stock with no basis.

We have recommended that John and Linda make their charitable contributions using stocks that have had significant gains. In looking at their statements, there are a few options. What really sticks out to me, though, are the five holdings that have no basis reported.

Custodians were not required to track basis on securities until 2011. So, many of the

John filed for Medicare this year. Linda filed last year. Their premiums for 2024 are based on income in 2022, when both were working. They should consider filing an SSA-44, the life-changing event form. This will allow them to project current income and pay premiums based on their current income, not their income while they were both working.

As you may have inferred from the above paragraph, Medicare Parts B and D premiums fluctuate based on income. Like our tax rates, there are income thresholds above which your premium goes up. Often, I see people going slightly above these threshold amounts without realizing it. If we catch this before the return is filed, we will look for ways to bring down their gross income. (For more on this, see my article Four Things to Know if Medicare's IRMAA Kicks In.)

6. Not taking advantage of lower tax years.

John and Linda were jazzed about the tax return their accountant projected. Neither worked the full year, so they overpaid based on what they had earned previously. Their taxes are likely to remain low until they tap Social Security and their retirement accounts.

We refer to the years between retirement and withdrawals as "tax valleys." Tax peaks are during your peak earnings years, and valleys are just the opposite. Take advantage of those valleys by evaluating whether you can convert retirement funds, take distributions or sell capital gains at a lower rate than you would be able to in the future.

Often when I'm reading a "mistakes to avoid" article, it's just to ensure I didn't make those mistakes. This one is a bit different. While you may have fallen victim to a few of these, in some cases it means you can file an amended return and get money back. At the very least, you can fix the mistake in time for future years.