Tax Changes for Seniors (2018 Trump Edition)

Standard deductions and personal exemptions

The new and simplified personal exemption rules include the complete elimination of the single filer's $4,150 personal exemption for the 2018 tax year. The $6,500 standard deduction is now $12,000. So, single taxpayers who take the standard deduction get a $1,450 boost when they add up their income deductions.

Those with a married filing jointly status will see their standard deduction go from $13,000 to $24,000. Married filing jointly taxpayers' standard deduction goes from $6,500 per person to $24,000 per person. Head of household filers will get an $18,000 deduction to replace their previous deduction of $9,350.

These changes potentially make filing taxes simpler. For those in lower tax brackets, the higher standard deduction may mean a smaller tax bill or bigger tax refund.

Taxes on social security benefits

Before 1984, no one paid taxes on their social security benefits. Currently, taxpayers with yearly incomes in the $25,000 to $34,000 range with a single filing status or couples with yearly incomes in the $32,000 to $44,000 range who file jointly may have to pay taxes on up to half of their social security benefits.

If the yearly income of a person filing with a single status exceeds $34,000 or couples filing jointly have a yearly income of more than $44,000, up to 85% of social security benefits may be subject to taxes.

If those income thresholds seem low, it's because they haven't been adjusted in more than 30 years. As time goes on, seniors will experience higher taxes on their social security benefits if there isn't an adjustment for inflation.

The newest group of tax law changes connects the standard deduction and tax brackets to a slow-growing chained Consumer Price Index. Going forward, tax brackets will rise slower than they have in past years, subjecting a greater amount of everyone's income to taxes.

Medical expense deduction

75% of the nine million people who deducted medical expenses from their taxable income in 2015 were over the age of 50. 70% of people who used the medical deduction with a 7.5%-of-income threshold had household incomes below $75,000. Half of them had household incomes below $50,000. Medicare beneficiaries are especially aware of the medical expense deduction, as they spend an average of $5,680 each year on costs not covered by this type of insurance.

The 7.5%-of-income threshold for medical deductions remains in place for the tax years 2017 and 2018 under the new laws. To get the deduction, filers must have at unreimbursed medical costs that exceed 7.5% of their adjusted gross income. They also must itemize their tax return deductions. The new higher thresholds for standard deductions may reduce the number of people who itemize by 60%.

Here are some things seniors can do during 2018 to maximize their chances of clearing the 7.5% threshold if they anticipate coming close with normal medical and dental costs.

- Schedule routine dental and medical appointments that normally happen early in the year for late in 2018.
- Fill as many prescriptions as possible (up to the amount allowed by the prescribing physician) and pay for them in 2018. Insulin is also a medical deduction, so stock up during December of 2018.
- Keep receipts and records for mileage, parking, toll fares, taxi or Uber rides, hotel or motel stays when receiving medical care away from home. Lodging deductions are allowed up to $50 per night.
- The cost of medically necessary home improvements, like wheelchair ramps, are deductible. Completing those projects in 2018 adds to the list of tax deductions.

Congress has the option to extend the 7.5% threshold rule past 2018, but as of right now they plan to raise it to 10% for the 2019 tax year. In 2016, the Affordable Care Act raised the threshold to 10% for the 2017 tax year. Congress voted to keep it at 7.5%, however.

The types of services and products that are deductible under the medical expense rule remain the same. These deductions include long-term care insurance premiums, nursing home payments, and long-term care facility payments.

The IRS has an interactive medical deduction worksheet to help taxpayers decide if they can deduct medical and dental expenses on their itemized tax return.

Rising medical costs

The most recent group of tax laws repeals the Affordable Care Act's (ACA) individual mandate that required every U.S. citizen to have health insurance or pay a fine. Some analysts predict that this move will undermine the security of the ACA marketplace, resulting in health insurance premium increases for seniors.

Rising medical costs are an understandably serious concern for seniors. Consulting a financial advisor and a tax professional is one way to get a clear picture of the current financial situation.

It's also important to have a solid idea of what assets are available and how much they are worth. Many seniors overlook the real value of their permanent life insurance policies. Selling a life insurance policy through a life settlement is always more lucrative for the policy owner than surrendering the policy for its cash value.