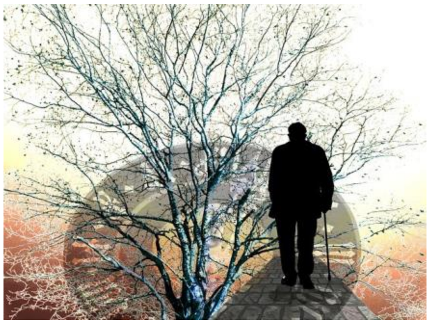
# Financial Planning for Elderly Family Members



I know it can be tough enough to deal with your own tax and financial planning. Nevertheless, I want you to focus for a few moments on someone else's finances – your aging parents or other relatives.

First, do it because you love them and they need your help, but are too proud or too stubborn to ask for it. Second, do it because their decisions will directly impact your own finances – for better or worse.

Financial planning for elders involves so many choices, some quite complex, so don't expect to become an expert reading this article. However, I do want to mention a few ideas that may immediately benefit your elder relative and perhaps yourself as well.

Many elderly people have very modest incomes. At the same time, they are probably incurring larger medical costs, resulting in their taxable income being low, or even zero. This actually creates a number of tax-saving opportunities. For example, when you turn 70 ½ years old, you must begin withdrawing a minimum amount from your retirement accounts each year. For most people, unless you need the money for expenses, you only withdraw the minimum required amount each year. However, if your tax bracket is close to zero, it makes sense to withdraw more than the minimum. After all, the amount not withdrawn during your elder's lifetime will one day be withdrawn by their beneficiaries, who will probably be in a higher tax bracket.

Perhaps you pay many of your elder's bills. Could you claim them as a dependent on your tax return? In most cases you can if their gross income is less than $4,000 (for 2015 tax returns) and you provide over one-half of their support. Keep in mind that "gross income" does not include tax-exempt income, such as social security benefits, so qualifying might not be as difficult as you think. Also, tax-exempt income and benefits are not included in the calculation of support, unless your elder actually uses them for support.

What if you and your siblings all contribute to their support, but no one person contributes over one-half? In that case, you and your siblings would sign a "multiple support agreement" and attach Form 2120 to your tax return, allowing one of you to claim the dependency deduction. Each year a different sibling could claim the deduction.

Medical expenses are the biggest budget buster for elders. Only medical expenses that exceed 10% of "adjusted gross income" can be deducted. Paying early or delaying the payment of medical costs to a different tax year may allow for a greater amount to be deducted.

What if you are helping your elder pay their medical costs? Can you deduct the medical expenses on your own tax return? You can if your elders qualify as your dependent. However, even if their income exceeds the $4,000 level and disqualifies them as your dependent, you can still deduct medical bills you pay on their behalf if you are providing over one-half of their support. This gets even more interesting if your employer maintains a flexible spending arrangement that allows you to make pre-tax payroll deductions for medical costs. Including your elder's anticipated medical costs in your deferral amount could save you substantial income and payroll taxes.

If your aging relatives are considering a move to a life-care community, a medical deduction can be claimed for a portion of a lump-sum or monthly fee that is properly allocable to medical care.  If paid as a lump sum, this might generate a large medical deduction in a single year, allowing you to match this deduction with income, such as the sale of a profitable stock.

The challenges and costs of dealing with aging relatives are enormous. Let Uncle Sam at least contribute to the cost by carefully monitoring tax-saving opportunities.

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