Tax Considerations for the Sandwich Generation

When it comes to tax planning and other financial considerations, there tends to be a lot written about the “Baby Boomer” and “Millennial” generations. Very little of the media coverage is focused on the “Sandwich” generation.

Unlike its generational counterparts, which are generally defined as being born within a certain time span -- late 1940s to early 1960s for boomers and 1980s through the 1990s for millennials -- the sandwich generation is defined by a life stage. With increasing life-expectancies and increasing living costs, many middle-aged people find themselves simultaneously providing financial or other care for their aging parents and their grown children.

Needless to say, the burden of providing such support can be costly and can divert resources away from the sandwich generation’s own plans for a healthy retirement. Fortunately, there is a silver lining. With a little planning, members of this generation may be able to find tax savings. While it is always best to discuss these matters with financial and tax professionals, here are a few ideas to consider:

Assess Long Term Care coverage and make gift tax-efficient payments. Setting up Long Term Care (LTC) can help to mitigate large medical expenses for nurses and caregivers while providing some security in these often stressful situations. Medical expenses can become very costly, but planning for LTC in the earlier stages can help minimize these costs. For families who have not set up LTC, there are other ways to maintain health care costs. Making payments directly to a parent’s medical service providers instead of giving the money directly to the parent (who then pays the medical provider) is a method which allows children to assist family members without a gift tax implication. There is no limit or tax consequence when making these payments.

List parents as dependents. Persons who provide more than 51 percent of their parent’s support may be able to claim them as a dependent on their tax return so long as the parent doesn’t earn more than $4,050 a year outside of their social security payments. Support includes lodging, food, medical and clothing costs. If the care is divided among siblings, or other caregivers, it is possible to complete a multiple support declaration, which will allow one person in the group to claim the parent as a dependent.

Using flexible spending accounts. Many people are comfortable with using flexible spending accounts for their own healthcare needs or the needs of their dependent children. What many do not realize is that these tax-advantaged accounts can also be used for the care costs of dependent parents. Of course, the IRS does not permit double-dipping or claiming reimbursements, which is to say that care, which is covered under an FSA, may not also be deducted on a tax return.

Having an open dialogue with your parents regarding their finances can be a preventative measure to avoid surprises. Understanding what their cash flow needs are, including their incoming cash from pensions, social security benefits, or other sources, can be a place to start this conversation. Reviewing daily / weekly expenditures as well as long term spending goals is another piece of the puzzle. You should factor in whether they lease or own their car and their home. Downsizing, selling their home or reducing their car payments can all have an impact to overall costs. Making sure Medicare or Social Security benefits have been maximized is a must and can put everyone in a better financial position.

It is important for the sandwich generation to continue to pay attention to their own personal finances as well. They should be mindful of personal 401k and savings accounts so that changes can be made in a timely manner. When appropriate, saving for a child's college with a 529 college savings plan should be a consideration. Talking to grown children about fiscal responsibility should be approached with as much care as possible. Making sure they understand the steps they need to take, such as setting up a retirement plan, investment account, or even automatic bill pay, can put them on a path to becoming financially independent. For a person in the Sandwich generation, having your children fiscally settled will help you to be able to manage your time and money more soundly.

For more information, or to discuss tax-efficient planning for unique circumstances, contact your Anchin Relationship Partner or Martin Miller, a senior manager in Anchin Private Client, at 212.840.3456 or info@anchin.com.

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