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GENERATIONAL
WEALTH MANAGEMENT

Re: Tips for Tax Deduction and Credit Planning

Tax season is in full swing — and the federal filing deadline is fewer than two months away on Tuesday, April 18. As you prepare to file your taxes, we want to help you make the most of your available credits and deductions. After all, every dollar you do not spend on taxes is one you can potentially invest toward your financial future. So, we've compiled tips for tax deduction and credit planning, with information on who is eligible and how you could possibly benefit.

Understanding Available Credits

Each tax credit you qualify for will directly reduce your tax payments. The IRS offers two kinds of credits: refundable and nonrefundable. With refundable credits, you can receive a refund, even if you owe less than the credit amount. On the other hand, nonrefundable credits offer a refund amount up to your tax liability.

Knowing which tax credits you qualify for can significantly reduce the amount of taxes you owe — and possibly even result in a refund. The IRS has a number of credits for individual taxpayers, but here is a list of common ones you could qualify for:

- **Earned-Income Tax Credit:** *For households with low- to moderate-income.*
The income limits can fluctuate, and many more people qualify for this credit than may realize it. In fact, 25% of eligible taxpayers do not claim this credit — which can be over \$6000 per household.¹
- **Child and Dependent Care Credit:** *For households who pay for childcare.*
If you have dependent children and pay for childcare, you may qualify for credits up to \$6000, depending on your adjusted gross income (AGI).²
- **Credit for the Elderly or Disabled:** *For taxpayers 65 and older, or those on permanent disability who meet income requirements.*
This credit starts at \$3750 and goes as high as \$7500. So, if you fit the age or disability restrictions, researching your eligibility is well worth the effort.³
- **Lifetime Learning Credit:** *For households paying for education.*

This credit can provide you up to \$2000 toward qualified tuition and enrollment fees. To be eligible, you must have a modified AGI less than \$130,000 as a married couple or \$65,000 as an individual.⁴

- **Premium Tax Credit:** *For households that purchased health insurance through a federal or state marketplace.*

This credit helps people cover the cost of premiums for insurance they purchase through the Health Insurance Marketplace. Depending on your income and other personal details, you may be able to receive a premium tax credit if you, your spouse, or your dependent purchased an eligible health insurance plan.⁵

Planning Your Deductions

Deductions help reduce your taxable income, thereby hopefully lowering your tax liabilities. Between itemized and standard deductions, taxpayers claimed nearly \$2 trillion in the most recently tracked year.⁶ That's a lot of money! But, chances are, many people miss eligible deductions and still pay more in taxes than they need to.

Remember, when you use the standard deduction, you can likely claim a higher deduction if you or your spouse has a qualifying vision impairment or a birthday on January 2, 1952, or earlier.⁷

If you itemize your deductions, you are likely familiar with the opportunities to write off your home mortgage interest, tuition fees, and charitable contributions. But here are a more few deductions you may be eligible to take, depending on your circumstances:

- **State Sales Tax:** *Mostly for households who don't pay state or local income tax.*

If you only pay federal income taxes, you may be able to deduct your state sales tax on your federal return. This deduction is especially helpful if you made a large, taxable purchase in 2016, such as a car.⁸

- **Business Travel Expenses:** *For taxpayers who have unreimbursed work travel.*

If you paid for travel to conferences, meetings, or other work obligations, you may be able to deduct your expenses. The list of potentially deductible items goes beyond transportation and lodging to include dry cleaning, meals, business calls, and more.⁹

- **Student Loan Interest:** *For households paying student loan debt.*

If you currently pay student loan debt, you may be able to deduct interest, depending on your income and specific circumstances. Deductions can be up to

\$2500 for student loan interest — and you are allowed to claim this deduction even if you don't itemize deductions on your tax return.¹⁰

- **Sale of Your Home:** *For households who profited from selling their main home in 2016.*
- If you sold your primary residence last year and earned a profit, you may qualify to claim this exclusion. If you qualify, you can exclude up to \$250,000 of the gain from your income - or up to \$500,000 if you file taxes jointly with your spouse.¹¹

Because the opportunities to reduce your tax liabilities are vast, and these credits and deductions are only the beginning, it is best to consult with your tax preparer or a qualified tax professional. Various factors in your unique financial life will guide what options are available to you. If you have questions or would like to learn more about how you can make the most of your 2016 federal taxes, we are happy to talk. We can also connect you with qualified tax professionals, should you seek further support. Please feel free to contact us at (616) 931-1270.

Kind Regards,

The Team at GENERATIONAL WEALTH MANAGEMENT

Footnotes, disclosures, and sources:

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¹ <https://turbotax.intuit.com/tax-tools/tax-tips/Tax-Deductions-and-Credits/The-10-Most-Overlooked-Tax-Deductions/INF12062.html>

<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts>

² <https://www.irs.gov/credits-deductions/individuals/child-and-dependent-care-credit>

³ <https://www.irs.gov/credits-deductions/individuals/credit-for-the-elderly-or-disabled>

⁴ <https://www.irs.gov/credits-deductions/individuals/lifetime-learning-credit>

⁵ <https://www.irs.gov/affordable-care-act/individuals-and-families/the-premium-tax-credit>

⁶ <https://turbotax.intuit.com/tax-tools/tax-tips/Tax-Deductions-and-Credits/The-10-Most-Overlooked-Tax-Deductions/INF12062.html>

⁷ https://www.irs.gov/publications/p17/ch20.html#en_US_2016_publink1000283783

⁸ <https://www.irs.gov/credits-deductions/individuals/deducting-sales-tax>

⁹ <https://www.irs.gov/taxtopics/tc511.html>

¹⁰ <https://www.irs.gov/taxtopics/tc456.html>

¹¹ <https://www.irs.gov/taxtopics/tc701.html>