

# Common Deductions Taxpayers Overlook

*Make sure you give them a look as you prepare your 1040.*

Provided by IWM Partners

Every year, taxpayers leave money on the table. They don't mean to, but as a result of oversight, they miss some great chances for federal income tax deductions.

While the IRS has occasionally fixed taxpayer mistakes in the past for taxpayer benefit (as was the case when some filers ignored the Making Work Pay Credit), you can't count on such benevolence. As a reminder, here are some potential tax breaks that often go unnoticed – and this is by no means the whole list.

**Expenses related to a job search.** Did you find a new job in the same line of work in 2012? If you itemize, you can deduct the job-hunting costs as miscellaneous expenses. The deductions can't surpass 2% of your adjusted gross income. Even if you didn't land a new job in 2012, you can still write off qualified job search expenses. Many expenses qualify: overnight lodging, mileage, cab fares, resume printing, headhunter fees and more. Didn't keep track of these expenses? You and your CPA can estimate them. If your new job prompted you to relocate 50 or more miles from your previous residence in 2012, you can take a deduction for job-related moving expenses even if you don't itemize.<sup>1</sup>

**Home office expenses.** Do you work from home? If so, first figure out what percentage of the square footage in your house is used for work-related activities. (Bathrooms and other "break areas" can count in the calculation.) If you use 15% of your home's square footage for business, then 15% of your homeowners insurance, home maintenance costs, utility bills, ISP bills, property tax and mortgage/rent may be deducted.<sup>2</sup>

**Health insurance & Medicare costs.** About 7% of us pay health coverage costs out of pocket. If you are in that 7%, you may write off 100% of your premiums as an adjustment to your business income per the Small Business Jobs Act of 2010. That write-off privilege extends to you, your spouse and 100% of your dependents.<sup>2,3</sup>

Some small business owners have qualified for Medicare. If you are one of them, and you and/or your spouse aren't eligible for coverage under an employer-subsidized health plan, then you may deduct premiums paid for Medicare Part B, Medicare Part D and Medigap policies. You don't have to itemize to get this deduction, and the 7.5%-of-AGI test for itemized medical costs isn't relevant to this.<sup>1</sup>

**State sales taxes.** If you live in a state that collects no income tax from its residents, you have the option to deduct state sales taxes paid in 2012 per the fiscal cliff bill passed into law on January 2.<sup>1</sup>

**Student loan interest paid by parents.** Did you happen to make student loan payments on behalf of your son or daughter in 2012? If so (and if you can't claim your

son or daughter as a dependent), that child may be able to write off up to \$2,500 of student-loan interest. Itemizing the deduction isn't necessary.<sup>1</sup>

**Education & training expenses.** Did you take any classes related to your career in 2012? How about courses that added value to your business or potentially increased your employability? You can deduct the tuition paid and the related textbook and travel costs. Even certain periodical subscriptions may qualify for such deductions.<sup>2</sup>

**Eating out on business.** The cost of a business lunch, breakfast or dinner – or a lunch, breakfast or dinner associated with business development – qualifies for an itemized deduction.<sup>2</sup>

**Those small charitable contributions.** We all seem to make out-of-pocket charitable donations, and we can fully deduct them (although few of us ask for receipts needed to itemize them). However, we can also itemize expenses incurred in the course of charitable work (i.e., volunteering at a toy drive, soup kitchen, relief effort, etc.) and mileage accumulated in such efforts (\$0.14 per mile for 2012, and tolls and parking fees qualify as well).<sup>1</sup>

**Superstorm Sandy losses.** The IRS allows filers living in federally declared disaster areas to file casualty claims for the year in which the disaster occurred, and the flexibility to amend the previous year's return. This means that you can deduct 2012 casualty losses on either your 2011 or 2012 federal tax return.<sup>4</sup>

**Armed forces reserve travel expenses.** Are you a reservist or a member of the National Guard? Did you travel more than 100 miles from home and spend one or more nights away from home to drill or attend meetings? If that is the case, you may write off 100% of related lodging costs and 50% of meal costs and take a 2012 mileage deduction (\$0.555 per mile plus tolls and parking fees).<sup>1</sup>

**Estate tax on income in respect of a decedent.** Have you inherited an IRA? Was the estate of the original IRA owner large enough to be subject to federal estate tax? If so, you have the option to claim a federal income tax write-off for the amount of the estate tax paid on those inherited IRA assets. If you inherited a \$100,000 IRA that was part of the original IRA owner's taxable estate and thereby hit with \$35,000 in death taxes, you can deduct that \$35,000 on Schedule A as you withdraw that \$100,000 from the inherited IRA, \$17,500 on Schedule A as you withdraw \$50,000 from the inherited IRA, and so on. If you withdrew such inherited assets in 2012, you have the opportunity to claim the appropriate deduction for the 2012 tax year.<sup>1</sup>

*And now, some opportunities for quasi-deductions that often go overlooked...*

**The child care credit.** If you paid for child care while you worked in 2012, you can qualify for a tax credit worth 20-35% of that amount. (The child, or children, must be no older than 12.) Tax credits are superior to tax deductions, as they cut your tax bill dollar-for-dollar.<sup>1</sup>

**Parents as dependents.** If you have parents whose taxable incomes are underneath the \$3,800 personal exemption for 2012 and you pay more than half of their support, they might qualify as dependents on your federal return even if they live at a different address.<sup>4</sup>

**Filing status shifts.** Are you a single filer? Do you have a relative or one or more children who qualifies as a dependent? If so, you could change your filing status to head of household, which could save you some tax dollars.<sup>4</sup>

**Reinvested dividends.** If your mutual fund dividends are routinely used to purchase further shares, don't forget that this incrementally increases your tax basis in the fund. If you do forget to include the reinvested dividends in your basis, you leave yourself open for a double hit – your dividends will be taxed once at payout and immediate reinvestment, and then taxed again at some future point when they are counted as proceeds of sale. Remember that as your basis in the fund grows, the taxable capital gain when you redeem shares will be reduced. (Or if the fund is a loser, the tax-saving loss is increased.)<sup>1</sup>

As a precaution, check with your tax professional before claiming the above deductions on your federal income tax return.

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**Citations.**

- 1 – [www.kiplinger.com/article/taxes/T054-C000-S001-the-most-overlooked-tax-deductions.html](http://www.kiplinger.com/article/taxes/T054-C000-S001-the-most-overlooked-tax-deductions.html) [1/3/13]
- 2 – [money.msn.com/tax-tips/post.aspx?post=382d5150-a740-4f31-b091-4711dc07bafc](http://money.msn.com/tax-tips/post.aspx?post=382d5150-a740-4f31-b091-4711dc07bafc) [1/18/13]
- 3 – [vaperforms.virginia.gov/indicators/healthfamily/healthInsurance.php](http://vaperforms.virginia.gov/indicators/healthfamily/healthInsurance.php) [1/23/13]
- 4 – [www.cnbc.com/id/100400925](http://www.cnbc.com/id/100400925) [1/23/13]