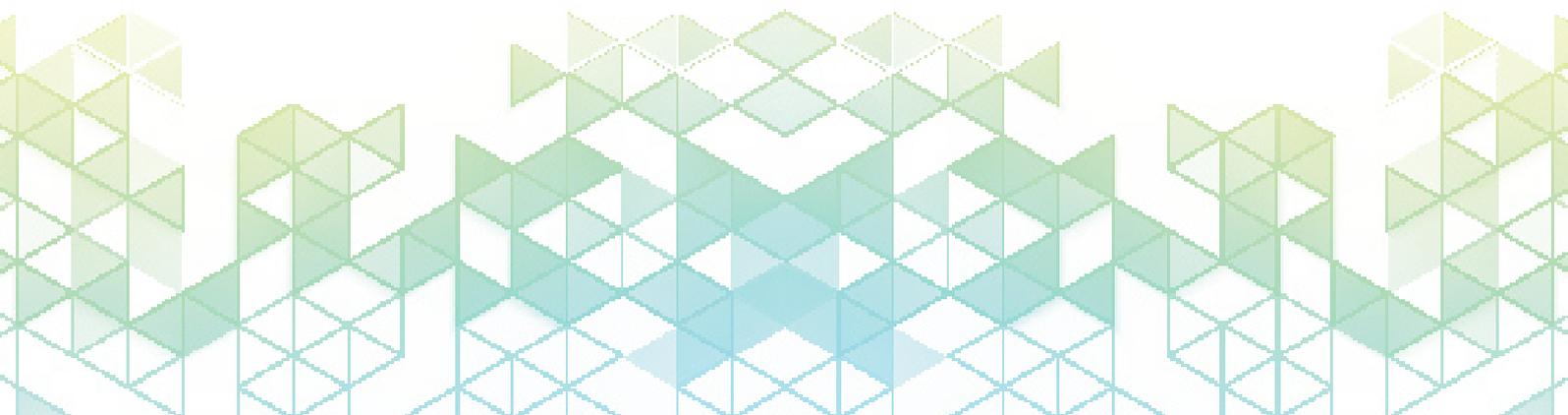




# The Ten Most Overlooked Tax Deductions





No one wants to pay more than they're required when it comes to taxes. In fact, most everyone is looking for as many deductions and credits as possible. Still, you might be surprised to see how many are commonly missed. These are the deductions (and credits) people forget to claim most often.



## 10. Refinanced Mortgage Points

When you first purchase your home, you are eligible for a tax deduction based on the mortgage points you paid at closing. However, many people don't remember to take this deduction when they refinance a mortgage. In this situation, you aren't allowed to take the full deduction at once, but you may take the deduction based on the life of the refinanced loan. So, for example, if it's a 30-year mortgage loan, you may deduct 1/30th of the points each year. Also, if you take out a loan/mortgage to improve your home, 100% of the points are deductible in the year the loan is made.





## 9. Residential Renewable Energy Tax Credits

If you invest in renewable energy, including solar energy, solar water-heating, geothermal heating, fuel cells, or wind energy, you may be eligible for a substantial tax credit. Through the end of 2019, this tax credit is worth 30 percent of your qualified renewable energy expense. The credit is gradually phased out after 2019, worth 26 percent in 2020 and 22 percent in 2021. However, there is no maximum limit to the credit, so if you're thinking about investing in renewable energy, it's a great time to make the leap. Keep in mind that this credit is available whether the property is your primary residence or not.



## 8. Gifted Student Loan Interest

You probably know that you can deduct student loan interest you paid for yourself, your spouse, or a dependent child. However, many people don't realize that the laws have changed regarding student loans paid by parents for their independent children. While parents who pay their independent children's student loans still won't see a tax break, the children can now claim the deduction themselves. There is a \$2,500 cap, however. You can see the IRS guidelines for more information.



## 7. Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is for people who earned wages (either through employment or self-employment), but the total wages are considered low income. The income limitations may change each year. For 2017, a single filer with three children could make just under \$48,340 and still qualify. You can see the IRS chart for more information. There is also a calculator available to help you determine whether you qualify.



## 6. Bonus Depreciation

Bonus depreciation can often be a godsend for small business owners. It can be difficult to stay on top of the rules for this deduction because legislation changes frequently. Usually, a company would depreciate their assets over the life of the asset. With the bonus depreciation deduction, you can elect to take the full cost of the asset in the same year it was purchased. In the past, 100% of the cost was eligible for a deduction, but the limit is 50% for most of 2017. However, Congress recently revised the laws again, and the limit is back to 100% for assets purchased after September 27, 2017, and placed into service before January 1, 2023. You can find more details on the IRS website.



## 5. Social Security Taxes

While employees only pay a total of 7.65% of their wages to Social Security and Medicare, self-employed individuals actually pay double that amount. (Typically, your employer would pay the other half, but because you work as your own employer, you're on the hook for the full amount.) In this case, you can deduct the employer's portion from your federal taxes. It qualifies as an adjustment to your gross income.





## 4. Charitable Contributions

Most people remember to deduct large charitable contributions, especially if they receive an end-of-year form from the charity as a reminder. However, the smaller contributions are often missed. You can deduct any contribution made to a charity as long as it meets the IRS criteria. This includes household items you drop off at your local charity, such as clothing or used furniture. For these items, simply calculate their current fair market value and ask for a receipt for your records. You can sometimes also deduct mileage and other expenses for your volunteer work. As long as it meets the IRS guidelines, your charitable contribution is a valid deduction.





## 3. American Opportunity Credit

The American Opportunity Credit is generally considered the best education credit available, yet many students still miss claiming it. If you qualify, the credit is available for up to four years of school. For the first \$2,000 spent on eligible expenses, 100% is deductible. An additional 25% is deductible of the next \$2,000. The total available credit is \$2,500. Even better, this is a credit, not just a deduction, which means it directly affects your total tax liability. In addition, it's a refundable credit, meaning you may get a refund if your credit is higher than your tax liability. However, there are some income limitations and only certain school expenses qualify.



## 2. Lifetime Learning Credit

If you aren't eligible for the American Opportunity Credit, the Lifetime Learning Credit is a great option. This credit is available for all levels of learning, including graduate and professional courses. To qualify, you, your spouse, or your dependent must be considered an eligible student at an educational institution. You may deduct up to 20% of the first \$10,000 of educational expenses for a total credit of \$2,000. The Lifetime Learning Credit is a credit like the American Opportunity Credit, but it is not refundable.



# 1. Taxes You've Already Paid

Believe it or not, the most commonly missed deductions are actually taxes you've already paid. Here are just a few:

## Sales Tax

You may elect to deduct either your state and local income taxes or your state and local sales taxes on your federal tax return – but not both. As of 2018, nine states do not charge income taxes, however (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming). If you live in one of these states, you would elect, of course, to deduct sales taxes instead. You should note that New Hampshire has neither state income nor sales taxes, so neither deduction would apply.

However, if you live in a state with both state income and sales taxes, which should you choose? There is a sales tax calculator available from the IRS to help you decide. Please note that if you make a large purchase for certain items during the year, such as a new automobile or boat, you may add the sales tax for this purchase to the amount in the IRS table, then compare the final number to your state income tax deduction. You should always choose the option that gives you the higher deduction.

At one time, there was no limit for this tax deduction. However, beginning in 2018, the cap is \$10,000.

## State Income Tax

If you owed state income taxes last year, you can claim those as a deduction on this year's federal return. This includes taxes paid via payroll deductions as well as quarterly taxes paid via check. It also includes any additional taxes you paid when you filed your state return.

State income tax deductions are also subject to the \$10,000 cap.

# Final Thoughts

If you believe you've missed a deduction on a prior tax return, you may be eligible to file an amended return.

For assistance, or if you have any questions about the credits or deductions on this list, please contact our office. A tax expert will be happy to look over your personal situation.



# About Olsen Thielen

Olsen Thielen is a full service accounting and consulting firm, and a "Top 25" firm in Minneapolis and St. Paul, Minnesota. We focus on providing top quality solutions for our clients through our traditional accounting and tax services, as well as non-traditional services like valuations, business succession planning, employee benefits and human resources consulting, back-office cloud accounting solutions, estate, gift and financial planning, and fraud and forensic accounting.

Olsen Thielen was founded on the belief that personal attention, trust, and quality service were the key elements to helping our clients succeed. Over 95 years later, that commitment remains. Our longevity and growth can be attributed to building strong relationships with our clients and continuing to earn their trust.



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