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Commonly Overlooked Tax Deductions and Credits for 2021



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Make sure you read this before you file your return!

Every year, without fail, thousands of taxpayers overpay on their taxes because they didn't know to deduct certain expenses. Here is a list of many commonly overlooked tax deductions and credits. Make sure you read this before you file your return.

1 Sales Tax

A deduction is allowed for state sales tax if the amount, allowed from a table, based on your adjusted gross income, exceeds the amount of the state and local income tax deduction. The actual sales taxes paid on major items such as cars and boats may be added to the amount allowed from the table. The sales tax deduction is useful in states that do not impose an income tax. However, you must choose the state income tax deduction or the state sales tax deduction. You may not use both. The total state tax deduction is limited to \$10,000 (\$5,000 if married filing separately).

2 Medical Expenses

Deductible medical expenses for you and your dependents include payments for the diagnosis, cure, mitigation, treatment and prevention of disease. This covers any part of the body, including health insurance premiums (whether paid directly or withheld from your paycheck), dental services and eye examinations. However, cosmetic procedures are excluded. Medical expenses will reduce taxable income when you itemize and the total expense for the year exceeds 7.5% of their adjusted gross income.

3 License Plate Fees

To the extent you pay fees for your license plates, and the fee is determined based on the value of your vehicle, you may deduct the cost of the fee as a personal property tax itemized deduction.

4 Non-business Bad Debts

Subject to strict rules personal loans to a friend or associate that will not be repaid are deductible as short-term capital losses in the year they become totally worthless.

5 Moving Expenses

You may deduct moving expenses if you moved in the course of your duties as a member of the Armed Forces. However, there are certain requirements, such as a distance test and a time test that must be met first.

6 Mortgage (Re)financing

To get a deduction for points for your new home mortgage, be sure the loan document states that the points were not paid for any specific services that the lender performed or agreed to perform under the loan contract. Charges should be separately itemized on the financing and settlement statements.

7 Charitable Contributions

In general, you can deduct contributions of money or property that you make to or use for a qualified charitable organization. Information about tax organizations, including those eligible to receive tax-deductible charitable contributions may be found by using Exempt Organizations Select Check found on www.irs.gov. Cash contributions are allowable if you keep a record of the contribution. keep a record of the contribution. The record may be a bank document (such as a canceled check, a bank copy of a canceled check, or a bank statement containing the name of the charity, the date and the amount) or a written communication from the charity.

A deduction for clothing or household items you donate may be claimed for clothing or household items that are in good used condition or better. References are available to determine the approximate value of clothes, toys, furniture and household goods that you may donate.

Donations charged on credit cards in December and paid in January are deductible in the year the amount is charged on the credit card.

8 Investment Interest Expense

Interest expense paid on a loan for which the purpose of the loan was to fund an investment is deductible as an itemized deduction. The deduction is limited to the lesser of the amount of interest paid or amount of net investment income for the year. Interest not deducted in any one year may be carried forward to subsequent years until fully deducted.

9 Retirement Plans

Even though you are covered by a retirement plan at work, you can/may qualify to contribute, subject to limitations, to any one of three types of individual retirement

Did You Know?

Due to the 2017 Tax Cuts and Jobs Act "TCJA", the Standard Deduction was increased. For 2021, the inflation-adjusted amounts are \$12,550 for single filers; \$18,800 for Head of Households, and \$25,100 joint filers. It is now more advantageous (and easier) to utilize the standard deduction versus "itemizing" deductions. This is the case for most taxpayers unless there are charitable deductions, mortgage interest, and taxes (capped at \$10,000 per year) that in total are in excess of these amounts. And that is until TCJA provisions expire in 2025. Stay tuned!

accounts – a traditional deductible IRA, a (non deductible) Roth IRA, and a non-deductible IRA. These offer a great way to help build a retirement portfolio on a tax deferred (or even tax free) basis. Self-employed individuals may have a Simplified Employee Pension Plan (SEP), a SIMPLE plan, or even a Keogh plan that can have the same benefits and deduction limits of the types of plans that large businesses have.

10 Tax-Deferred Investing

Annuities offer the opportunity to invest in a wide variety of mutual funds without paying income tax on the earnings until you withdraw funds from the annuity. These are looked on as retirement funding vehicles for those individuals that want to put more money away for retirement over and above what they are able to put away through their retirement plans at work.

11 Health Insurance Premiums

Self employed individuals can deduct 100% of health insurance premiums paid for the benefit of themselves and their dependents. There can be certain limitations involved. Health insurance premiums paid, even if not deducted on the Federal income tax return as an itemized deduction, can be used as a deduction from household income in determining the Michigan property tax (renters) credit.

12 Student Loan Interest Paid by Parents

If you are not a dependent of your mom and/or dad, you can qualify to deduct up to \$2,500 of student loan interest paid by them. The IRS will treat the money your parents paid as a gift to you. Then, you can treat the payment as student loan interest paid by you. This treatment is advantageous when your parents are prevented from taking advantage of the student loan interest deduction due to limitations based on their income.

13 Rent (Michigan Only)

Paying rent on a Michigan homestead may qualify you for a Michigan property tax credit.

14 Theft and Casualty Losses

Losses incurred because of a theft, disaster or casualty, in a federally-declared disaster area and not reimbursed by insurance, may be tax deductible.

15 Energy Efficient Improvements

Installation of some energy efficient improvements such as exterior doors or windows, insulation, heat pumps, furnaces, central air conditioners or water heaters may qualify you for a Federal credit on your tax return.

16 Educator Expenses

Taxpayers who work in the field of education may deduct up to \$250 for supplies, software,

Did You Know?

Even if you don't itemize your deductions on your 2020 tax return, the CARES Act allows you to deduct up to \$300 in cash charitable contributions on Form 1040. In 2021, this amount increases to \$600.

books, and other items purchased to perform work. Additionally, personal protective equipment (PPE) can be included in this amount if you need it to perform your job.

17 Tuition and Fees Deduction

Generally speaking, education credits will give taxpayers more benefit for the costs of tuition at a qualified institution. For taxpayers who don't qualify for the credit, however, the tuition and fees deduction can provide up to a \$4,000 deduction from taxable income.

18 Education Credits for Dependents

Ordinarily, education credits for taxpayers begin to phase out when the taxpayer's income is too high. When a single taxpayer's adjusted gross income is higher than \$80,000 (\$160,000 for married couples), the most common education credit, the American Opportunity Tax Credit, begins losing value, and is lost completely at higher incomes. However, college student dependents of taxpayers can sometimes receive the benefit of the non-refundable portion of the credit by filing their own tax returns. This can be a valuable planning opportunity for high-income parents of college students.

19 Business Meals for Self-Employed Taxpayers

The general rule for meals and entertainment expenses is that a business taxpayer can only deduct 50% of business meals expenses on their returns (this also applies to self-employed taxpayers). However, the Consolidated Appropriations Act of 2020 (sometimes known as "PPP2") allows the full deduction of 100% of business meals in 2021 and 2022, so long as they are purchased from a restaurant.

20 Qualified Charitable Distributions for RMDs

One potential tax planning hassle for older taxpayers with retirement accounts is the concept of the required minimum distribution (RMD). After a taxpayer reaches age 72, they must begin drawing a specified amount of money from their retirement accounts or risk large tax penalties. For taxpayers who have no immediate need for this income, being forced to have additional taxable income can cause tax problems. However, taxpayers can instead re-direct up to \$100,000 of retirement account funds, including those used in an RMD, to a qualified charity and exclude it from their income altogether.

21 Retirement Distributions for New Parents

Becoming a new parent, by birth or adoption, can be a very expensive endeavor. The tax code tends to be unfavorable to taxpayers who withdraw money from their retirement accounts before they reach age 59 ½, levying a 10% penalty tax in addition to the potential

Make sure to consult with your accountant to see which of these apply to your specific situation.

If you have questions or would like to speak to someone regarding your tax return, please contact:

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income tax on the amount drawn out of the account. Under the SECURE Act of 2019, new parents can withdraw up to \$5,000 each from their retirement accounts with no penalty, up to one year after the birth of a child or placement of a child for adoption.

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