What Tax Deductions Are Still Available to Me?

Tax reform measures are enacted frequently by Congress, which makes it hard for U.S. taxpayers to know which deductions are currently available to help lower their tax liability. In fact, a former head of the IRS once said that millions of taxpayers overpay their taxes every year because they overlook one of the many key tax deductions that are available to them.1

One of the most overlooked deductions is state and local sales taxes.2

Taxpayers may be able to take deductions for student-loan interest, out-of-pocket charitable contributions, moving expenses to take a first job, the child care tax credit, new points on home refinancing, health insurance premiums, home mortgage interest, tax-preparation services, and contributions to a traditional IRA.

Of course, some tax deductions disappear as adjusted gross income increases. And some deductions are subject to sunset provisions, which your tax professional can help you navigate.

Another key deduction is unreimbursed medical and dental expenses.

Remember that you may only deduct medical and dental expenses to the extent that they exceed 10% of your adjusted gross income (AGI) and were not reimbursed by your insurance company or employer. Individuals older than 65 can claim qualified expenses that exceed 7.5% of AGI through 2016.

In addition to medical and dental expenses, certain miscellaneous expenses — primarily unreimbursed employee business expenses — can be written off if they exceed 2% of AGI, subject to the limitation on itemized deductions that exceed certain thresholds. Some of the expenses that qualify for this deduction are union dues, small tools, uniforms, employment agency fees, home-office expenses, tax preparation fees, safe-deposit box fees, and investment expenses. Your tax advisor will be able to tell you exactly what’s deductible for you.

The end of the year is the time to take one last good look to determine whether you qualify for a tax credit or deduction or whether you're close to the cutoff point.

If you're not close, you may opt to postpone incurring some medical or other expenses until the following year, when you may be able to deduct them.

On the other hand, if you're only a little short of the threshold amount, you may want to incur additional expenses in the current tax year.

With a little preparation and some help from a qualified tax professional, you may be able to lower your income taxes this year. You just have to plan ahead.

1–2) Kiplinger.com, November 2014