

Little Known Tax Deductions

(from YOUR MONEY MATTERS by Ken & Darla Dolans)

#1: "Pleasure" Trips!

You can turn almost any pleasure trip into a business trip if you get some work done while you're away.

You don't have to spend your entire trip working, but if you can document that you actually made some business contacts or did a little research relevant to your business while you were away, you can enjoy some tax bennies from the trip.

For example, this might mean exchanging business cards with potential business colleagues and making plans to speak with them after you return.

Just be sure to save those hotel and meal receipts...then claim them on your next return.

#2: Energy-Efficient Home Appliances

Do you need to replace your water heater anytime soon? If so, keep in mind that tax credits (not deductions) are still available for qualified solar water heating systems installed between January 1, 2006 and December 31, 2008.

The tax credit is for 30% of the cost of the system, up to \$2,000. Also, photovoltaic systems that provide electricity for homes still offer the same tax credits — 30% of the cost, up to \$2,000

#3: Private Mortgage Insurance

If you purchased your home with less than 20% down, you're likely paying private mortgage insurance (PMI) to protect the lender in case you default.

Until recently, PMI payments were NOT tax-deductible for the homeowner. Thanks to a new law passed earlier this year, however, you can now deduct these along with your mortgage interest.

The new deduction is good from now until 2010, but only applies to mortgages issued after 12/31/06. Also, the full deduction is limited to homeowners making \$100,000 or less. (For those earning \$100,000 to \$109,000, a partial deduction is allowed.)

For more tax tips for homeowners, here are "Six Tax Tips Every Homeowner Will Love."

Six Tax Tips Every Homeowner Will Love

Here are six tax-saving tips for all you happy homeowners. Following even one of them could cut your tax bill by hundreds of dollars this year...

Tax Tip #1. If you run a business from your home, some of your home office expenses (rent/mortgage, utilities, phone) may be deductible on Form 8829, IF that office is your principal place of operating that business. In claiming the expenses as deductions, it helps to show some business income. If you show a profit, the IRS is a lot less suspicious when you try to deduct expenses.

Tax Tip #2. With interest rates relatively low, many of us are refinancing - or thinking about it. First, the bad news: You cannot deduct up-front (all in the first year) the points you pay to the lender when you refinance. Now, the good news: You can deduct the points over the lifetime of the loan period in equal amounts every year. Plus, you can now deduct points the seller paid, too!

Tax Tip #3. Some home improvements may qualify as medical expense deductions. Two of the most popular: for example, a ground-floor bathroom for a person who has difficulties climbing stairs because of a heart condition; or an air conditioner installed for a person allergic to dust.

Tax Tip #4. You may "reduce" (for tax purposes) the sale price of your home by subtracting certain "selling expenses" from the sales price. Among them: attorney fees, real estate broker's commission, notary fees, title search, mortgage satisfaction fees and transfer or stamp taxes.

Tax Tip #5. Consider converting your rental vacation home into a personal second residence by using it yourself for more than the greater of 14 days or 10% of the number of days that it is rented out. This allows you to realize full benefit from mortgage interest and property tax deductions. This can be worth a lot more to you than the deductions you can take on "rental property."

Tax Tip #6. When you move, you can deduct the moving expense even if you don't have a job when you arrive IF: the location of the job you eventually land is at least 50 miles farther from your old home than your old job, and you work at the new job for at least 39 weeks of the first 12 months after the move.

#4: Car Expenses for Medical Reasons

Most people know they can deduct mileage and other driving expenses for business purposes; but did you know there's also a helpful deduction if you drive for *medical* reasons as well?

That's right — if you need to drive somewhere to obtain medical care for yourself or your dependents, you can deduct mileage if the drive is "primarily for, and essential to, medical care" (according to the IRS).

How much can you deduct, exactly? 19 cents a mile between January and June 2008 and 27 cents a mile between July and December. That's certainly nothing to sneeze at...and every little bit helps!

#5: Business Meals/Entertainment

If you frequently take clients out to lunch or dinner, you probably already claim the deduction for business meals — that is, 50% of the expenses.

Keep in mind, however, that if you have a legitimate "working" lunch — for example, at the office — you can claim 100% of the costs of that meal.

Also, be sure to keep your entertainment and meal expenses separate. If you take a client to a baseball game, for instance, you can deduct 100%, rather than 50%.

Of course, paying by credit card will help you keep accurate records for tax purposes.

#6: "Do-Good" Deductions

Everyone knows that a qualified charitable donation is tax-deductible, but there are other lesser-known deductions you can take in the name of charity...

For example, if you travel as a volunteer, a good portion of your travel expenses — including hotel and airfare — are deductible. Also if a charitable organization such as Big Brother or Big Sister assigns a child to your care, you can deduct any of that child's food and entertainment costs.

Last, if you donate artwork, be sure to wait to donate until you've owned the piece for at least a year. That way, you can deduct the fair market value rather than just the price you paid for it.

See your tax advisor for more complex details relating to donating an asset to a charity, including an automobile.

#7: Commuting Costs for Part-Timers

Working 9 to 5...and then 6 to 10? That's a lot of work! Thankfully, it CAN have its benefits — at least as far as your taxes go.

As we all know, normal commuting costs to work aren't normally tax-deductible. However, if you work two jobs, you can deduct the costs of commuting from one job to another. It's considered a legitimate deductible business travel expense.

Standard mileage deductions apply — for 2008, that's 50.5 cents per mile between January and June, and 57.5 cents between July and December.

#8: Personal "Bad Debts"

Many people don't know this, but the bad debts in your personal life can actually be a tax benefit (talk about a silver lining!). The restrictions are rather tight, but they can be well worth sifting through if you can't get "Cousin Harry" to pay back that money he owes you.

For one thing, the bad debt needs to be claimed on your personal tax return to offset any capital gains on your investments.

Also, the debt needs to be a loan and NOT a gift. We hope that you got a promissory note from "Harry" as proof to the IRS that it was not a gift.

For more details on this, along with how to prevent getting stuck with a bad debt from a loved one, be sure to read "How to Lend Money to Family and Friends"
http://www.dolans.com/family_money/lending-money-to-family.html .

#9: Tax Breaks for Hobbyists

Have a hobby? If you actually earn money from it, then you may be able to deduct certain related expenses up to the amount of your hobby income on your tax return.

For example, if you're a stamp collector and actually sell some of your prized collection for profit, you can deduct things such as the cost of storage and maintenance. You can also deduct subscriptions to stamp collecting magazines and journals.

But, keep in mind that a profitable sale of all or part of your collection is taxable as a capital gain. At the same time, a loss is not considered a deduction.

#10: Parental Support

If you care for an aging or ill parent, you may qualify for a medical expense deduction. This is a special category of dependent for which the tax law allows.

Your mother or father may have too much income on their own to qualify as a regular dependent; however if you provide more than 50% of their support, any medical expenses that you pay for can be tax deductible. To qualify, those expenses must exceed 7.5% of your Adjusted Gross Income (AGI).

If you're concerned about caring for your own parents — both financially and with day-to-day living — then don't miss "Talking Money and Healthcare with Your Aging Parents."
http://www.dolans.com/family_money/talking_money_with_your_aging_parents.html .

#11: "Easy-to-Forget" Tax Deductions

Any good taxpayer knows there are *plenty* of deductions that are easy-as-pie to take...but just as easy to forget, too. So tie a ribbon around your finger and take note of these as well:

Be sure to deduct your tax preparer's cost from last year on THIS year's returns.

Also don't forget if you use a safe deposit box to store stocks, bonds, or other investment-related documents, you can deduct the rental fees.

And speaking of investment-related deductions...another all-too-easy one to miss is depreciation on your computer or cell phone for the time you use your equipment to keep track of your taxable investments...OR as part of your job (if required by your employer).

Frequently Overlooked Deductions

Don't you love beating the IRS? We get a perverse pleasure from not paying taxes, so we put together some tips to help you pay less to the IRS.

- Points you pay for a mortgage or loan for improvement of your home.
 - Unemployment and disability taxes your state withholds.
 - Expenses related to seminars you attend for business purposes. Deductible items include registration fees, travel, lodging and 80% of the cost of your meals.
 - Travel expenses you incur when checking on income-producing property.
 - Cost of telephone, postage, office supplies and automobile operation (trips to and from broker).
 - Books, magazines, and newsletters on investment, financial, or tax matters, including appropriate daily papers (e.g., The Wall Street Journal, The New York Times).
 - Out-of-pocket expenses incurred in changing jobs. Include the cost of printing resumes or traveling to an interview.
 - A portion of health insurance for the self-employed.
 - Deductible items on December credit card statement, even if paid in the following year.
 - Medical expenses.
 - Charitable contributions.
- Miscellaneous business expenses.