

LITTLE-KNOWN TAX BREAKS

Some of these may provide big savings.

Presented by Avanti Wealth Management

The Internal Revenue Code is around 700 pages thick – not as long as *War and Peace* or *Remembrance of Things Past*, but much drier reading. However, some very nice tax breaks may be found within its pages and amendments. Not all are well-known.

Reducing America's debt. If you write a check to the federal government to help decrease the national debt, it counts as a deductible charitable contribution for that year's federal return. You can do this by writing a check payable to "Bureau of the Public Debt" and mailing it to Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. (The check doesn't have to be mailed independently of your federal return – it can also be mailed with your return.)¹

Hosting an exchange student. Do you have a student living with you under a formal agreement with a qualified organization that exists to provide educational opportunities for that student? Is that student a full-time student at a U.S. high school or secondary school? Is he or she not your dependent or relative? If you host an exchange student, all of this may apply. If it does apply, you are eligible for a tax credit of \$50 for each month that the student lives with you (15 or more days of a month count as a full month).¹

Personal expenses related to volunteering. Volunteer work in itself will not provide you with a tax break, but you may be able to deduct 14¢ per mile on your 2011 federal return for charity-related mileage or the cost of the gas you paid for your driving on behalf of the charity, whichever is greater. You can also deduct the costs of tolls and parking related to your driving. Away from the driver's seat, you can also characterize the out-of-pocket expenses you pay on behalf of a charity or qualified non-profit organization as charitable deductions (if the organization hasn't reimbursed you for them). Buying equipment for the charity, buying office supplies or stamps, buying and cleaning uniforms – these are just some of the expenses that are deductible.¹

Travel expenses related to medical care. IRS Publication 502 states that you may deduct 16.5¢ per mile on trips you take to obtain medical care for yourself or your dependents. The trip has to be "primarily for, and essential to, medical care". Bus, taxi, plane and train fares and ambulance service fees all count as expenses toward the deduction as long as the travel was for medical care. Parents transporting children who need medical care and nurses traveling with a patient can also claim the deduction. Also, some who qualify for this deduction may also get a tax break of up to \$50 per night for lodging related to trips taken for health care.²

Local & state income taxes. Did you buy a house, an RV or a boat in 2010? You may be able to exploit state or local income tax deductions. Only 7 states don't have state income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming). Tennessee and New Hampshire merely tax forms of dividends and interest.³

Private mortgage insurance. This deduction is still around - it is scheduled to sunset at the end of 2011. Assuming you bought your home with less than 20% down, you probably have PMI – and you can deduct the premiums you paid in 2010 on your 2010 return. To get the break, your home loan must have been originated after 2006. If you refinanced your home after 2006, you are allowed to deduct PMI for that mortgage. However, phase-outs kick when your adjusted gross income exceeds \$100,000 (\$50,000 for those married and filing separately).⁴

Health insurance premiums. In 2010, did you spend in excess of 7.5% of your AGI on healthcare and other medical-related expenses? You can then deduct the amount you spent (but to do this properly, the expenditures should be itemized). You can't deduct pre-tax insurance premiums. See more at www.irs.gov/taxtopics/tc502.html.⁵

Safe deposit box rental. In certain cases, you can deduct this cost. The IRS says you can if you rent the safe deposit box to store taxable income-producing stocks, bonds or investment-related papers and documents. If you store tax-exempt securities, jewelry or other personal items in the box, you can't exploit the deduction.⁶

The Saver's Credit. This is the up-to-\$1,000 tax credit that you may be able to claim if you contributed to an IRA or qualified employer-sponsored retirement plan like a 401(k) or 403(b) last year. Your AGI has to fall below a certain level to claim it. For 2010, those levels were \$55,500 (married filing jointly), \$41,625 (head of household) and \$27,750 (single, married filing separately or qualifying widower). The credit can be as large as \$2,000 for joint filers.⁷

Tax preparation costs. In 2010, did you pay a tax professional to prepare your 2009 tax return? The IRS commonly lets you deduct the fees you paid to such professionals. The cost of tax preparation software and tax publications counts toward the deduction, and so do e-filing fees.²

Many more deductions are out there. For a long list of potential tax breaks, see IRS Publication 529 (irs.gov/publications/p529/ar02.html). See your tax professional to determine whether some of these obscure credits might give you a break.

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Citations.

1 - bankrate.com/finance/money-guides/cash-in-on-uncommon-charitable-tax-breaks-1.aspx [3/17/11]

2 - irs.gov/publications/p502/ar02.html [3/31/11]

3 - kiplinger.com/tools/retiree_map/index.html?map=1&si=1 [10/10]

4 - bankrate.com/finance/taxes/deducting-private-mortgage-insurance.aspx [3/10/11]

5 - irs.gov/taxtopics/tc502.html [2/7/11]

6 - irs.gov/publications/p529/ar02.html [2/7/11]

7 - irs.gov/publications/p590/ch05.html [2010]

8 - montoyaregistry.com/Financial-Market.aspx?financial-market=wealth-management-for-executives&category=4 [4/3/11]

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