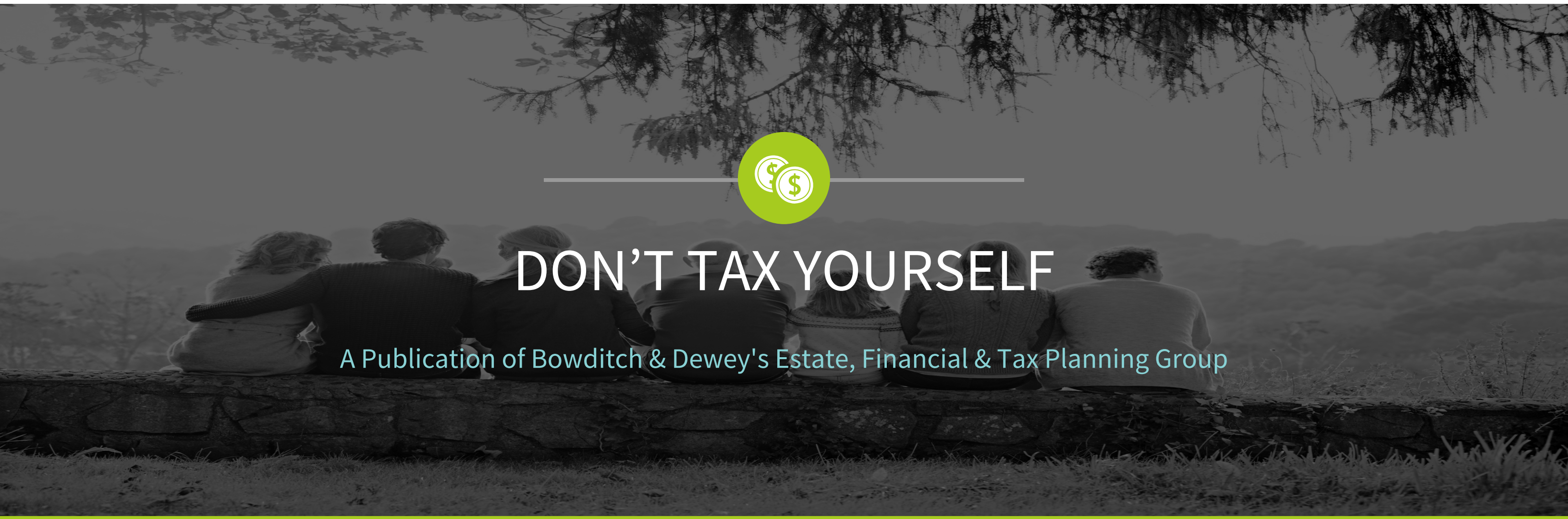

Top Ten+ Overlooked Income Tax Deductions

BY CHRISTOPHER G. MEHNE • DECEMBER 6, 2016

It's December! Time to prepare for the holidays, make your lists, buy your gifts, eat, drink and be merry—and start thinking about income taxes, specifically year-end tax planning. Pay (or prepay) deductible expenses. Defer income that you don't need before January. Look at your investments and consider taking capital losses to offset gains incurred earlier in the year (or vice versa). And make sure your records will be complete and accessible when it's time to give them to your tax preparer. Tax time will be here before you know it!

Following are some of the most common deductions—and other tax benefits—overlooked by individuals gathering their annual income tax information. Which ones might be applicable to you?

1. **IRA related tax benefits:** You can recognize a loss on the complete distribution of an IRA (either traditional or Roth) if the total distributions to you are less than your cost basis in the IRA. Also, if you have inherited an IRA (or other qualified retirement plan) from a decedent whose estate was federally taxable, you are entitled to an itemized deduction for the estate taxes paid by the estate on the inherited account.

2. **Nonbusiness bad debts and worthless securities:** If a nonbusiness debt or security you own becomes *completely* worthless during the tax year, the amount of the loss may be deducted as a short-term capital loss, regardless of how long you held the debt or security.

3. **Capital improvements added to cost basis of real estate:** Many individuals do not keep complete or accurate records of the total cost basis (acquisition cost plus capital improvements) of their personal residences, including second or third homes. These costs can reduce or even eliminate capital gain income on the sale of a personal residence.

4. **Legal fees relating to production or collection of income:** Fees paid or incurred for the production of income, for the management or maintenance of income-producing property or for the recovery of income or investment property are generally deductible as miscellaneous itemized expenses, subject to the 2% of adjusted gross income threshold. Examples of deductible legal expenses are fees paid for financial and tax planning, determining or collecting alimony under a divorce or separation decree, and resolving issues relating to employment or compensation.

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5. **Personal interest expenses other than home mortgage interest:** An itemized deduction is allowed for certain personal interest payments, including “points” (also called loan origination fees) paid to refinance a home mortgage loan, interest on investment indebtedness (to the extent of the taxpayer’s net investment income), interest paid on indebtedness allocable to the taxpayer’s trade or business, and interest on qualified education loans.

6. **Education related expenses:** Deductions or tax credits are available for several types of education-related expenses, including: employee education expenses to maintain or improve required job skills; lifetime learning credits and American Opportunity credits; student loan interest paid by the taxpayer; and student loan interest paid by the parents of an emancipated child (deductible by the child under certain conditions).

7. **Health insurance premiums:** In addition to the more obvious deductible medical expenses, don’t overlook premiums paid for general health insurance, long term care insurance (limits apply based on the age of the insured), Medicare Part B insurance, and insurance on certain medical devices and equipment. Additionally, self-employed taxpayers can deduct from gross income 100% of their medical insurance premiums, including both Medicare A and B coverage.

8. **State income, personal property and sales taxes:** State income taxes paid by the taxpayer, including taxes paid in the current year for a prior year liability, and personal property taxes paid to a state or municipality (e.g. excise taxes on automobiles, boats and property taxes on vacation home furnishings) are itemized deductions from federal gross income. Also, taxpayers who live in states that do not impose an income tax may deduct state and local sales taxes paid.

9. **Miscellaneous charitable deductions:** Don’t forget to keep track of the less obvious charitable contributions, including “out of pocket” cash contributions, noncash contributions up to $500 in value, unreimbursed mileage and other travel expenses for charitable activities (e.g., volunteer services and nonprofit board meetings), and donations to fundraising events where the cost of admission exceeds the fair market value of the admission, meal or other privileges associated with the event (as documented by the charitable organization in a written statement to the donor).

10. **Miscellaneous deductions:** The “kitchen sink” of itemized deductions includes many other easily forgotten expenses, including job hunting expenses, unreimbursed travel and other business expenses, and gambling expenses to the extent of gambling winnings.

[Note: restrictions apply to many of the above deductions; consult your tax advisor for details.]

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