



THE FINANCIAL PLANNING ASSOCIATION

of San Diego

HOME

PLANNER RESOURCES

DID YOU OVERLOOK THESE TAX DEDUCTIONS?

Considering that tax specialists have a tough time keeping up with the perpetual flood of tax code changes, it's not surprising that the average taxpayer overlooks many potential deductions. The 2001 Tax Relief Act alone created 441 tax changes, many of which kicked into effect in 2002. Here's a list of several itemized and non-itemized tax deductions you may qualify for but may not be aware of.

Lost your job? Expenses associated with searching for a job, such as résumé and travel, qualify for deductions. The rub is that they're treated as miscellaneous deductions, and you can only deduct the amount of miscellaneous expenses that exceeds two percent of your adjusted gross income (AGI). For example, if your AGI is \$50,000, you can't deduct the first \$1,000 in miscellaneous expenses.

Moved for a job? Moving expenses also are a deductible miscellaneous item as long as you move because of work. To claim moving expenses, however, you must have moved at least 50 miles beyond the distance your old home was from your old place of work. If you drove 5 miles to your old job from your old home, for example, your new home must be at least 55 miles away from your new place of work.

Refinanced for the second or third time? Points in a refinance must be amortized over the life of the loan. But if you refinance a mortgage you previously refinanced, you can deduct in a single tax year any amortized points from the previous refinance that have not been previously deducted.

Suffered a major casualty? Floods and fires did a lot of damage in 2002. First, subtract \$100 from your total uninsured losses. Then calculate ten percent of your AGI. The amount of losses that exceed that ten percent can be claimed.

Paid for college? Starting in 2002, and ending in 2005, most taxpayers will be able to deduct some of the money they spend for higher education. Taxpayers filing jointly whose income doesn't exceed \$130,000 AGI can claim up to \$3,000 in 2002 and 2003, and \$4,000 in 2004 and 2005.

Borrowed for college? More families will now qualify in 2001 for the student loan interest deduction. The 2001 Tax Relief Act raised the income phase-out ranges to \$100,000-\$130,000 AGI for joint filers (\$50,000-\$65,000 for single), and, perhaps most importantly, removed the restriction that the deduction can be claimed only on interest paid in the first 60 months that loan payments were required. The maximum annual interest you can claim is \$2,500.

Quit smoking? Tried to lose weight? You can claim a medical expense for doctor-prescribed smoking cessation or weight-loss programs.

Earned low income? Taxpayers who earn a low-enough income (roughly \$30,000 AGI for joint filers) and who can still manage to contribute something to a qualified retirement plan or individual retirement account (IRA), may qualify for a tax credit of up to \$2,000. That's a dollar-for-dollar reduction for each dollar you pay in taxes. Remember, you can contribute to your 2002 IRA as late as April 15, 2003.

Used COBRA medical insurance? Taxpayers cannot deduct medical expenses except for amounts that exceed the threshold of 7.5 percent of their AGI. Unless they accumulate a lot of medical expenses in a single year, many taxpayers don't reach that threshold, or barely pass it. But if you lost your job and had to use COBRA to extend the group health coverage you had at work, for which you have to pay the entire premium, you'll probably easily pass that threshold.

Have unused charitable or investment deductions? Taxpayers frequently forget to claim investment losses or charitable deductions they carried over from previous tax years because their claims were too large to fully deduct in those years.

Donated items to charity? Tax experts say donors consistently underestimate the value of the clothes, household goods and other items they give away. Some charitable organizations publish suggested values based on the item and its condition. Software is also available from private vendors. On the other hand, don't overvalue the donation of your car. The IRS has been scrutinizing those donations. And don't overlook the mileage you accumulate donating your time to charitable causes.

Adopted a child? The 2001 Tax Relief Act raised the tax credit you can take for adopting a child to \$10,000. The income phase-out range was also raised. It now starts at \$150,000 AGI.

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