

Tax Tips for All Taxpayers

1. A nonrefundable Hope Scholarship tax credit (\$1,650 maximum) available on a per-student, per-year basis for each of the first two years of qualified post-secondary tuition and fees (but not books or room and board). Subject to a phase-out based on adjusted gross income (AGI).
Lifetime learning credit (maximum nonrefundable \$2,000 tax credit) is available for post-secondary educational expenses. Generally, the lifetime learning credit is subject to the same limitations as the Hope scholarship credit with the following exceptions: (1) the credit is per taxpayer per year (does not vary with the number of students in a taxpayer's household); (2) the credit is available for an unlimited number of years; and (3) the credit is available for undergraduate, graduate, professional degree and other students acquiring or improving job skills enrolled in one or more courses.
2. You can deduct up to \$2,500 of interest on qualified education loans for college or vocational school expenses, even if you do not itemize deductions. Deduction is phased out based on AGI.
3. Nondeductible contributions up to \$4,000 (\$5,000 if 50 or older) can be made to a Roth IRA. Distributions, including earnings, are tax free when certain requirements are met. The contribution limit is subject to an AGI-based phase-out.
4. An IRA deduction up to \$4,000 (\$5,000 if 50 or older) is available to all taxpayers who are not covered by an employer-sponsored retirement plan. Taxpayers covered by an employer plan may be eligible for a full or partial deduction, depending on their AGI.
5. If only one spouse has compensation, a spousal IRA can be set up for the nonworking spouse. Each spouse (working and nonworking) may contribute up to \$4,000 or \$5,000 (if age 50 or older).
6. Exceptions apply to the 10% penalty for early withdrawals from an IRA if the funds are used for: (1) medical expenses in excess of 7.5% of AGI, (2) certain qualified educational expenses, (3) a first-time home purchase for distributions of up to \$10,000 or (4) medical insurance for those who are unemployed for at least 12 weeks.
Note: IRA withdrawals are still subject to regular income tax.
7. A gain exclusion up to \$250,000 (\$500,000 if married and filing jointly) is available for sale of a principal residence if the taxpayer(s) owned and occupied the residence for two years of the five-year period ending on date of sale.
8. Interest on certain Series EE savings bonds issued after 1989 are tax exempt if proceeds are used for qualified educational expenses of a taxpayer, spouse or dependent subject to a phase-out.
9. Keep receipts supporting tax deductions at least four years.
10. Improvement costs may reduce taxable profit upon sale of property. Keep records of improvement costs made to all real estate property at least four years after the property is sold.
11. If "allocated tips" are listed on year-end Form W-2, the amount will be subject to both Social Security and income tax unless records (tip log) verify that a lesser amount was actually received.
12. If stock or mutual fund dividends are automatically reinvested instead of received in cash, maintain good records of all reinvested dividends each year. These reinvestments will increase your cost basis, and reduce gain or increase loss upon sale.
13. Child care expense credit allows up to a 35% tax credit on up to \$3,000 of child care costs paid for one dependent or \$6,000 for two or more dependents.
14. Taxpayers who attained age 50 prior to January 1, 1986, (born before 1936) and receive a lump-sum distribution from a pension plan or profit-sharing plan may utilize a tax-saving method with 10-year averaging. Ask your tax advisor.

15. Taxpayers investing in certain types of passive activities (such as limited partnerships) are limited in the amount of loss they can claim to offset other types of income. However, a taxpayer who actively participates in a rental real estate activity can apply up to \$25,000 in rental losses against other sources of income—subject to a phase-out rule.
16. Purchasers of hybrid (gas-electric) and other alternative fueled vehicles are eligible for a tax credit of up to \$3,400.

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17. Insurance policies that cover medical costs are deductible. Disability and loss of income insurance are not deductible.
18. Qualified long-term care insurance premiums are deductible subject to age and dollar limits: Age 40 or less, \$290; ages 41 to 50, \$550; ages 51 to 60, \$1,110; ages 61 to 70, \$2,950; ages 71 and up, \$3,680.
19. Special assessments paid on your property are normally not allowed as a current deduction in addition to the real estate tax deduction. But, the interest portion of the special assessments can be deducted as a tax.
20. Loan origination fees, commonly called points, are deductible as interest by a buyer of a new principal residence. Homebuyers are also allowed to deduct seller-paid points. Points paid on refinancing an existing residence must be deducted over the life of the mortgage.
21. Charitable contributions of \$250 or more in any one day to any one organization must have written substantiation from the organization. A bank record, such as a cancelled check is not sufficient to support the deduction.
22. When making contributions of used furniture, appliances and clothing to nonprofit organizations, request a receipt from the organization. Attach a record of the items donated to the receipt for proof of this deductible contribution. Contributions must be in good or better condition to be deductible.
23. Taxpayers who own appreciated stocks or bonds can take advantage of certain tax-saving methods by donating the securities to churches or other nonprofit organizations.
24. If you experienced a casualty loss (flood, fire, theft, etc.) which exceeds 10% of AGI, your tax preparer will explain what information is required to determine your deductible loss, if any.
25. Expenses incurred for education for improving your skills for your present job or maintaining your job may be deducted. Seminars, tuition, books and some travel expenses can be deducted. Travel as a "form of education" is not deductible. *Example:* French teacher travels to France to maintain general familiarity with the French language and culture—not deductible. However, see Tax Tip 1 for education costs that are deductible even when not job related.
26. Job-seeking costs in the same field of employment are deductible. Successful job placement is not necessary.
27. Part of a legal fee incurred in a divorce or an estate plan may be deductible if it is for advice on the tax consequences. Have your attorney clearly indicate how much of the fee is for tax advice.
28. Expenses incurred for attending conventions, seminars or other meetings which give investment advice to taxpayers are not deductible.
29. Investment interest (land, margin account, etc.) is deductible only to the extent of net investment income for the year. Net investment income includes dividends, interest, royalties and short-term capital gains.