

## **COMMON DEDUCTIONS**

### **• ITEMIZE DEDUCTIONS OR TAKE THE STANDARD DEDUCTION?**

Itemized deductions consist of: Medical Expenses, State Income Taxes or Sales Tax, Property Taxes, Automobile License Fees, Charity Contributions, Job-related Expenses, Casualty or Theft Losses, and Home Mortgage Interest. You are entitled to deduct the total of your itemized deductions OR take the Standard Deduction of:

|                   |         |                           |          |
|-------------------|---------|---------------------------|----------|
| Single            | \$6,350 | Married Filing Jointly    | \$12,700 |
| Head of Household | \$9,350 | Married Filing Separately | \$6,350  |

The California Fire Prevention Fee has been determined by the IRS to be not deductible.

- The personal deduction for each member of your family is \$4,050. You get this deduction PLUS either the Itemized or Standard deduction.
- MILEAGE RATES (cents per mile):  
Business mileage: 53.5 cents per mile  
Charity mileage: 14 cents per mile  
Medical mileage: 17 cents per mile
- CHARITABLE CONTRIBUTIONS: If a contribution is under \$250, you MUST have either a written receipt from the charity, or proof of payment (such as a cancelled check). If a contribution is over \$250, you MUST have BOTH a written receipt from the charity and proof of payment.

## **EDUCATION CREDITS, LOANS & ACCOUNTS**

- American Opportunity Tax Credit: Applies to first four years of college. Credit is 100% of the first \$2,000 and 25% of the next \$2,000. Covers tuition, fees, and course materials (not room and board).
- Lifetime Learning Credit: Any undergraduate or graduate courses for job skill improvement. 20% credit of \$10,000 spent per family. Does not cover books, supplies, or room and board.
- Deduct up to \$4,000 in tuition and fees for college or job related education. Or take one of the education credits explained above.
- Deduct up to \$2,500 interest paid on a student loan.
- Education Savings Accounts (ESA) and Qualified Tuition Plans (QTP) are available for saving for future education. Contributions to these accounts are not deductible, but distributions from these accounts are tax free if used for qualified educational expenses. You can find more information at [www.scholarshare.com](http://www.scholarshare.com) and [www.collegesavings.org](http://www.collegesavings.org).

## **IF YOU SELL YOUR HOME**

You can exclude from tax home sale profit of \$250,000 for single taxpayers and profit of \$500,000 for married taxpayers. You must have owned and lived in the home for two of the past five years. Beginning 2009, you will lose some or all of this exclusion if your home is a rental and then converted into your residence.

## **SELF-EMPLOYED TAXPAYERS**

- Self-employed health insurance premiums are 100% deductible.
- Up to \$500,000 purchase of business assets may be deducted in one year instead of depreciated. This includes business trucks and vans over 6,000 gross vehicle weight. SUVs over 6,000 gross vehicle weight are limited to a \$25,000 deduction.
- Remember to keep adequate records on business travel, meals and entertainment expenses (i.e. time, place, amount, business purpose, and business relationship of person entertained).
- A new office in home "safe harbor" rule: Instead of keeping track of home utilities, repairs, etc., you can take a \$5 per square foot home office deduction.

## **RETIREMENT PLAN CONTRIBUTIONS AND DISTRIBUTIONS**

- Retirement Savings Credit: Receive a tax credit for contributing to a 401(k), IRA, SEP, or any other retirement plan. Your income must be under \$60,000 if married, \$45,000 if head of household, and \$30,000 if single.
- IRA: Contribute up to \$5,500 (\$6,500 if you are age 50 or older).
- Roth IRA: Same contribution limits apply as with traditional IRAs. You receive no tax deduction for a contribution into a Roth IRA, but all distributions from the Roth IRA are tax free.
- Self-Employed Plans: Choices include SEPs, Simple IRAs, and 401(k)s. It's possible to contribute over \$50,000 into one of these plans. Ask me for more details.
- IRA distributions will not be subject to a 10% early withdrawal fee if they are used for college education of the taxpayer, spouse, or their dependents.
- IRA distributions up to \$10,000 will not be subject to a 10% early withdrawal fee if they are used as a down payment on a home for a first-time homebuyer.

## **HEALTH SAVINGS ACCOUNT**

The Health Savings Account (HSA) was designed to make health care and health insurance more affordable. It is a tax-advantaged savings account (similar to an IRA) whose sole purpose is to pay for medical expenses of the owner, spouse or dependents. It is always combined with a high deductible health plan (minimum \$1,250 deductible for a single taxpayer, \$2,500 deductible for a family). Like an IRA, the contributions into this account are tax deductible. The maximum amount you can contribute to a HSA is \$3,300 for a self-only plan, and \$6,550 for a family plan. The account grows tax-free. Distributions are tax-free as long as they are used to pay medical expenses.

## **TAX RATES**

Federal tax rates stay at 10, 15, 25, 28, 33, and 35 percent. A new rate of 39.6% for high incomes will be discussed under the Obamacare section.

California has new tax brackets of 10.3, 11.3 and 12.3 percent that apply to taxable incomes exceeding \$250,000.

## **CAPITAL GAINS**

If you are in the 10 or 15% tax bracket, your capital gain tax is zero. Otherwise, your capital gains tax rate is 15%. For incomes over \$400,000, the capital gain tax rate rises to 20%. Most dividends are taxed at the lower capital gain rate.

## **CHILD TAX CREDIT**

The child tax credit is \$1,000 for children under age 17.

## **ADOPTION CREDIT**

Up to \$13,400 credit for adoption expenses. A special needs adoption receives the maximum \$13,400 credit even if the actual amount spent is less.

## **SMALL EMPLOYER HEALTH INSURANCE PREMIUMS CREDIT**

For employers with ten or fewer employees. If the employer pays health insurance premiums for his employees, the tax credit can be up to 35%.

## **CREDIT FOR ENERGY EFFICIENT VEHICLES**

The credit for hybrid vehicles is gone, but a \$2,500 to \$7,500 credit exists for plug in vehicles such as the Nissan Leaf and Chevy Volt. It will phase out after 200,000 vehicles are sold.

## **CHILD CARE CREDIT**

For child care expenses, the credit is up to 35% of \$3,000 in expenses for one child, and \$6,000 in expenses for two or more children.

California has also had this credit for years. It was always a refundable California credit, but it is now NON-refundable.

## **RESIDENTIAL ENERGY CREDITS**

The 10% Non-Business Energy Property Credit for water heaters, air conditioners, etc. expired on 12/31/2014. However, the credit for solar electric or solar water heating is still unlimited and also includes improvements from Wind Energy Property, Geothermal Heat Pump Property, or Fuel Cell Property. The credit is 30% of the solar cost.

## **ESTATE TAX**

An estate tax applies for estates over \$5.34 million. If an estate is under \$5.34 million, there is no tax. A maximum 40% tax rate is imposed on the amount over \$5.34 million.

## **GIFT TAX**

A gift under \$14,000 does not get reported. A gift over \$14,000 must be reported to the IRS on a gift tax return. Even though it is reported, a tax on this gift usually does not apply.

## **IDENTITY PROTECTION PIN**

If you ever had a problem with your identity being stolen, you may have received a letter from the IRS that contains an Identity Protection Pin. Please bring that letter along with your other documents.

## **FOREIGN INVESTMENT ACCOUNTS**

Do you have any type of bank account, stocks, notes, or financial instruments held in a foreign country?

- 1) Does the balance exceed \$10,000? If so, you must file Form 114 by June 30. This is a separate form not associated with your tax return. Ask me for details if you want me to file this form.
- 2) Does the balance exceed \$50,000 (\$100,000 for a married return)? If so, it must be disclosed and reported on your tax return. A minimum \$10,000 penalty applies for failure to report.

## **TAX FILING DEADLINE DATE**

Tuesday, April 17, 2018. If you file an extension, the deadline is October 15, 2018. An extension is only for filing your tax forms...**not for tax payments**. To avoid penalty and interest, any tax you owe must be paid by April 17, 2018.

## **IN-HOME SUPPORTIVE SERVICE**

In-Home Supportive Services (IHSS) provides personal care and domestic services to persons who are aged, blind or disabled and who live in their own homes. IHSS is provided to those who otherwise might be placed in an out-of-home care facility but who can safely remain in their own home if IHSS services are received. Before 2014, these payments were reported to the caregiver as taxable wages on a W-2. Beginning in 2014, the payments are tax exempt if you live with the person that you care for.