



# PERSONAL TAX DEDUCTIONS

A GUIDE FOR LOWERING YOUR TAX LIABILITY



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## Introduction

Claiming deductions on your income tax return can be a smart strategy for filers. That's because tax deductions can help shield a portion of your earnings from income tax. This is especially important now that personal exemptions no longer exist. To help ensure you're taking advantage of the tax deductions you may be eligible to claim, we've put together this handy guide to help you understand how they work and identify opportunities to decrease your tax liability.

### How Do Tax Deductions Work?

A tax deduction is an expense that can be used to reduce your taxable income, which in turn reduces your tax liability. For example, if you have \$89,500 in gross income and \$10,000 in eligible tax deductions, your taxable income falls to \$79,500. If you're a single filer, that moves you from a 24% tax bracket to a 22% tax bracket (2022 tax year).

Tax deductions generally fall into one of three categories:

- ✚ The standard deduction
- ✚ Itemized deductions
- ✚ Above-the-line deductions

When filing your taxes, you must decide to either use the standard deduction or itemize. You can, however, take above-the-line tax deductions regardless of which one you choose.

### Tax Deductions vs. Tax Credits

Although tax deductions and tax credits are both advantageous when filing, they are two very different things. A tax deduction reduces your taxable income. A tax credit, on the other hand, is a dollar-for-dollar reduction of the amount you owe in taxes. Some tax credits are even refundable, so they not only reduce your tax bill but can also result in a tax refund.

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## Standard Deduction or Itemize?

When you file your income tax return, you have the choice to either use the standard deduction or itemize deductions. The option you select should be based on which will maximize your tax benefits.

### How The Standard Deduction Works

The standard deduction allows you to reduce your taxable income by a set amount based on your filing status. When personal exemptions were eliminated during the tax code overhaul in December 2017, the deduction amount nearly doubled for all filers. The IRS has adjusted the amount annually, due to inflation, since 2019.

Filing Status	2017	2023
Single or Married Filing Separately	\$6,350	\$13,850
Head of Household	\$9,350	\$20,800
Married Filing Jointly	\$12,700	\$27,700

The downside to the standard deduction is that you cannot deduct mortgage interest or take many other popular tax deductions. This includes medical expenses and most charitable contributions.

### Should You Take The Standard Deduction?

According to IRS data, 46.2 million taxpayers itemized in 2017. That number declined to 16.7 million in 2018 after the amount for the standard deduction increased.

Although the standard deduction is easier than itemizing and the amount is now significantly higher than previous tax years, don't automatically assume this is the best option for your tax situation. If you have a mortgage and higher income, for example, you may not find this option favorable. Additionally, if your filing status is "married filing separately" and your spouse itemizes on their return, you won't be eligible to take the standard deduction. Your deduction amount will also be limited if another taxpayer can claim you as a dependent on their return.

In general, most taxpayers will opt to use the standard deduction.

## Itemized Deductions

Itemized deductions are qualified expenses that are subtracted from your adjusted gross income (AGI), which lowers your taxable income. Unlike the standard deduction, there is no set amount taxpayers can claim. This is because your specific amount is based on the total expenses you are eligible to claim.

Itemized deductions are claimed on Schedule A (Form 1040) and generally fall into one of the following four categories:

- ✚ Medical expenses (including dental)
- ✚ Charitable gifts
- ✚ State and local taxes
- ✚ Mortgage interest

Keep in mind that each of these deductions has specific rules, restrictions, and qualifications.

**Taxpayers whose qualified expenses are greater than the standard deduction amount should itemize.**

### Medical Expenses

You may deduct your medical expenses if they exceed 7.5% of your AGI. For example, if you have an AGI of \$50,000 and eligible medical expenses that total \$7,500, you could claim \$3,750. This may include fees paid to physicians and non-traditional medical practitioners, inpatient hospital treatment, prescription drugs, dental treatments, medical transportation, and more.

### Charitable Gifts

You may be able to deduct the value of items donated to charity, whether it's cash or tangible property.

### State and Local Taxes

You may be able to deduct up to \$10,000 in state and local taxes (sales and/or property).

### Mortgage Interest Deduction

You may deduct your mortgage interest up to \$750,000 in principal if it's for your primary residence or a vacation home. A home equity loan may also qualify if the funds were used to substantially improve your home. Interest paid on mortgages for investment properties do not qualify for this deduction. You may, however, be able to use the interest to reduce your taxable rental income.

If the total of your eligible deductions is higher than the standard deduction, it's worth the time and effort to itemize.



## Above-the-Line Tax Deductions

Above-the-line tax deductions are expenses that are deducted to help determine your AGI. These are different from itemized deductions, which are taken to reduce your AGI. Another difference – you can take above-the-line deductions even if you use the standard deduction. The following are examples of common above-the-line tax deductions.

### Retirement Plan Contributions

Contributions made to traditional IRAs and other qualified retirement accounts are deductible. If you're a high income earner, however, your deduction amount may be reduced (or phased out) if you contribute to both a traditional IRA and another qualified plan.

### Alimony

Alimony payments (not including child support payments) made to a spouse are deductible if the divorce decree or separation agreement was executed before December 31, 2018. If your agreement was modified or created after that date, you'll need to speak with a tax professional to determine if those payments still qualify.

### Health Insurance Premiums

Premiums paid for an individual health insurance policy are fully deductible if you are self-employed. If you have access to group health coverage, you are ineligible for this deduction.

### Educator Expenses

Educators who teach in grades K through 12 and work at least 900 hours annually may deduct up to \$300 for qualified out-of-pocket expenses. This includes not only books and teaching supplies, but also hand sanitizer and other COVID-19 protective items.

### Student Loan Interest

If your income is below a certain limit, you may be able to deduct up to \$2,500 in interest paid on federally-subsidized student loans. This is per return, not per person.

Depending on your tax situation, you may also be able to deduct certain investment and gambling losses. If you're active duty military, you may also deduct certain job-related moving expenses.

## Self-Employment Tax Deductions

There are many tax deductions available if you are self-employed. Some are above-the-line deductions, while others are taken below the line. Below-the-line deductions reduce your taxable income, but not your AGI. All can be taken whether you itemize or take the standard deduction. Here are just a few of the deductions currently available:

- ✚ **Qualified Business Income Deduction.** Sometimes referred to as “pass-through” income, this allows you to deduct 20% of your qualified business income.
- ✚ **Home Office Deduction.** If you have a dedicated space used exclusively for your business, you can deduct many indirect and direct expenses. This includes, but is not limited to, utilities, maintenance costs, and office supplies.
- ✚ **Self-Employment Tax.** You may deduct 50% of your self-employment tax (Social Security and Medicare) from your net income, which helps reduce your income tax.
- ✚ **Retirement Plan Contributions.** Contributions to SEP-IRAs, SIMPLE IRAs, and solo 401(k)s reduce your tax bill and help you rack up tax-deferred investment gains for later. Be advised that contribution limits vary by plan, and the IRS adjusts maximum-allowable limits annually.
- ✚ **Travel Expenses.** Expenses include the cost of transportation to and from your destination, as well as those incurred while at your destination. Fees for meals and lodging are also covered.
- ✚ **Meals.** You may deduct 100% of your business meals (food and/or beverages provided by a restaurant) purchased during 2022. Starting January 1, 2023, this will revert to 50 percent.
- ✚ **Advertising Expenses.** Costs to advertise your business (print, TV, radio, digital, etc.) are tax-deductible.

**Your home, retirement savings, and other business expenses could get you a tax break.**

Self-employed filers can also take tax deductions for continuing education expenses, business insurance premiums, and office supplies. In some cases, you may even be able to deduct your credit card and loan interest for business-related purchases.

Be sure to speak with a tax professional to ensure you are taking every eligible deduction!

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## Get Help Today!

If you're unsure which tax deductions you may be eligible to take on your state and/or federal tax return, speak with a tax professional before filing. They can help you determine whether the standard deduction or itemizing is better for you, as well as ensure you take advantage of all available tax credits and deductions. Be sure to keep good records, including bank statements, invoices, and receipts. This will help you in the event the IRS or state tax agency questions any items on your tax return. If you've lost some records, don't panic. There are often ways to reconstruct missing documents.

At Tax Defense Network, we've helped thousands of clients file their individual and small business tax returns. Our team of experienced tax professionals can also assist with finding affordable solutions for most tax debt situations. We encourage you to explore our website, [www.taxdefensenetwork.com](http://www.taxdefensenetwork.com), and schedule a free consultation to speak with one of our tax specialists today!

Tax Defense Network  
9000 Southside Blvd., Bldg. 100  
Suite 1900  
Jacksonville, FL 32256  
[info@taxdefensenetwork.com](mailto:info@taxdefensenetwork.com)

