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THE ULTIMATE **CREDITS & DEDUCTIONS GUIDE**



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INTRODUCTION

Welcome to 'The Ultimate Credits & Deductions Guide', your comprehensive resource designed to help you navigate the complexities of tax credits and deductions. As tax professionals, we understand that the world of taxes can be overwhelming. That's why we've compiled this guide with the aim to simplify, clarify and support you in your tax journey. Whether you're a working individual, a student, a homeowner, or a self-employed person, there are numerous credits and deductions that you may qualify for, and we're here to help you understand them. This guide outlines key tax credits and deductions in an easy-to-understand format, making it simple for you to identify which ones apply to your specific situation. Armed with this knowledge, you'll be better prepared to maximize your tax savings and minimize your tax liability. So, let's dive in and start exploring the potential savings that await you in the world of tax credits and deductions!





CREDITS VS DEDUCTIONS: UNDERSTANDING THE DIFFERENCE

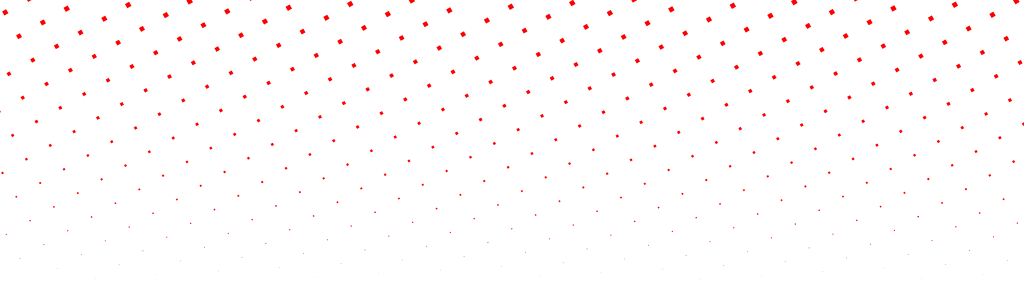
Both tax credits and tax deductions can reduce the overall amount of tax you owe, but they function in different ways.

Tax deductions lower your taxable income, essentially reducing the amount of your income that's subject to taxation. The value of a tax deduction depends on your marginal tax rate. For instance, if you fall into the 22% tax bracket, a \$1,000 deduction could save you \$220.

Tax credits, on the other hand, directly reduce the amount of tax you owe on a dollar-for-dollar basis. A tax credit of \$1,000 will reduce your tax bill by exactly \$1,000, regardless of your tax bracket.

It's also important to understand the distinction between **refundable** and **non-refundable** tax credits. Refundable tax credits can reduce your tax liability below zero, meaning if the credit's value exceeds the amount of tax you owe, the government will pay you the difference. Non-refundable tax credits can reduce your tax liability to zero, but not below, so you won't receive a refund for any amount of the credit exceeding your tax liability.

In summary, while both tax credits and deductions can help to lower your overall tax bill, they do so in different ways. Recognizing these distinctions can help you make informed decisions about your taxes.



CREDITS

EARNED INCOME TAX CREDIT (EITC)

The Earned Income Tax Credit (EITC), or Earned Income Credit (EIC), is a refundable tax credit primarily targeted towards low to moderate-income working individuals and couples, particularly those with children. The value of the credit varies depending on the recipient's income level, marital status, and the number of dependents. Essentially, if you fall within certain income brackets and meet specific criteria, EITC reduces the amount of tax you owe and may grant you a refund. This credit is designed to reduce the tax burden on these individuals and incentivize more people to work. Remember, because it's a credit, it directly reduces the amount of tax you owe, unlike a deduction, which lowers your taxable income. Please consult a tax professional or IRS guidelines to determine your eligibility and to learn more about the EITC.

CHILD AND DEPENDENT CARE CREDIT

The Child and Dependent Care Credit is a non-refundable tax credit available to taxpayers who pay for the care of a qualifying individual to enable them to work or actively look for work. A qualifying individual can be a child under the age of 13 or a dependent who is physically or mentally incapable of self-care, such as an older parent in your care. The credit amount varies based on your adjusted gross income and the amount you've paid for care. It's important to note that the care services must have been used to ensure your or your spouse's gainful employment. With this credit, you could potentially lower your overall tax bill by claiming a percentage of the costs of care. Like all tax credits, rules and limits apply, and it's advised to consult a tax professional or review IRS guidelines for full details about this tax credit.

EDUCATION CREDITS

The Internal Revenue Service offers two lucrative credits targeted toward those pursuing higher education: the **American Opportunity Tax Credit (AOTC)** and the **Lifetime Learning Credit (LLC)**.

The **AOTC** is a credit for qualified education expenses paid for an eligible student in the first four years of higher education. The maximum annual credit is \$2,500 per eligible student. If the credit brings your tax liability to zero, up to 40% of any remaining amount of the credit (up to \$1,000) is refundable.

The **LLC**, on the other hand, is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate and professional degree courses, including courses to acquire or improve job skills, regardless of the number of years in the program. The maximum lifetime learning credit is limited to \$2,000 per tax return, per year.

Each of these credits is aimed at easing the financial burden of higher education and offering substantial tax savings. However, they are subject to income limitations and cannot be claimed simultaneously for the same student in the same year. It's recommended to check the IRS guidelines or consult with a tax professional to determine eligibility and understand the potential benefits.

CHILD TAX CREDIT

The Child Tax Credit is another significant tax credit that directly benefits families with children. For each qualifying child under the age of 17 at the end of the tax year, taxpayers can claim a credit of up to \$2,000. A portion of the credit may be refundable, meaning it can lead to a refund if it lowers your tax bill to zero. This credit is designed to provide financial relief to families by offsetting the costs associated with raising children. The credit begins to phase out if your modified adjusted gross income exceeds certain thresholds, which vary based on your filing status. It's important to consult with a tax professional or review IRS guidelines to understand the full details of the Child Tax Credit, including qualifications, limitations, and potential benefits.

SAVER'S CREDIT

The Saver's Credit, officially known as the Retirement Savings Contributions Credit, is a non-refundable tax credit that rewards low to moderate-income taxpayers who are saving for retirement. If you make eligible contributions to your Individual Retirement Arrangement (IRA), 401(k), or other retirement savings plans, you may be able to take this credit. The value of the Saver's Credit can be up to 50%, 20% or 10% of your retirement plan or IRA contributions up to \$2,000 (\$4,000 if married filing jointly), depending on your adjusted gross income. This means the maximum credit amount is between \$200 to \$1,000 (\$400 to \$2,000 if married filing jointly). Just like other credits, the Saver's Credit can directly reduce the tax you owe. However, as a non-refundable tax credit, it will not provide a tax refund if it exceeds your tax liability. To claim the Saver's Credit, it's essential to use Form 8880, Credit for Qualified Retirement Savings Contributions. It's recommended to consult with a tax professional or review IRS guidelines to determine your eligibility for this valuable tax credit.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

The **Residential Energy Efficient Property Credit** is a tax incentive designed to promote the use of renewable energy sources in homes. This credit can be applied to homeowners who install energy-efficient systems such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines and fuel cell properties. A substantial percentage of the cost of these systems may be claimed as a credit, which is a dollar-for-dollar reduction of your tax liability, not just a deduction from taxable income. This credit is non-refundable, meaning it can reduce your tax bill to zero, but you won't receive a refund for any excess credit over your tax liability. Understanding the specific requirements and benefits of this energy tax credit can be complex, so it's advised to consult with a tax professional or review IRS guidelines for comprehensive details.





DEDUCTIONS

MORTGAGE INTEREST DEDUCTION

The Mortgage Interest Deduction is a significant tax benefit for homeowners, particularly those with a new mortgage, as interest payments can be a major component of early years' mortgage payments. If you've taken out a loan to buy, build, or improve your home, you may be able to deduct the interest paid on up to \$750,000 (\$375,000 if married filing separately) of this mortgage debt on your federal tax return. This deduction directly reduces your taxable income in proportion to your marginal tax rate, potentially saving you a sizable amount in taxes. It's important to note that the Mortgage Interest Deduction is itemized, meaning you'll need to forgo the standard deduction on your tax return to claim it. You should receive a Form 1098, Mortgage Interest Statement, from your mortgage lender that shows the total amount of interest paid during the year. Be sure to consult with a tax professional or review IRS guidelines to fully understand the eligibility requirements and benefits of the Mortgage Interest Deduction.

STATE AND LOCAL TAXES DEDUCTION (SALT)

The **State and Local Taxes Deduction**, commonly referred to as SALT is a federal income tax benefit allowing taxpayers to deduct payments made for state and local tax liabilities from their federal taxable income. This deduction includes taxes paid on real estate, and personal property, as well as either income taxes or sales taxes, but not both. For the tax year 2021, the deduction is capped at \$10,000 (\$5,000 if married filing separately). This means taxpayers can only deduct up to that amount in total of combined state and local property, income, and sales taxes. The SALT deduction can be a valuable tax-saving tool for taxpayers residing in high-tax states. However, as with the Mortgage Interest Deduction, to claim SALT you need to itemize deductions, forgoing the standard deduction. It's recommended to consult with a tax professional or review IRS guidelines to thoroughly understand the potential benefits and limitations of the State and Local Taxes Deduction.

CHARITABLE CONTRIBUTIONS DEDUCTION

The **Charitable Contributions Deduction** is a valuable tax benefit for taxpayers who donate to qualifying charitable organizations. This deduction allows you to subtract the value of your contributions from your taxable income, reducing your overall tax liability. The IRS recognizes donations made to a wide range of non-profit organizations, including religious institutions, educational institutions, scientific and literary groups, public safety entities, and organizations dedicated to preventing cruelty to children or animals. The deduction typically applies to cash donations, as well as property or goods. However, remember that to claim the Charitable Contributions Deduction, you must itemize deductions, forgoing the standard deduction. Additionally, there are limits on the total amount you can deduct based on your adjusted gross income. It's crucial to keep accurate records of all donations and to obtain receipts or written acknowledgments for contributions. As always, it's recommended to consult with a tax professional or review IRS guidelines to understand the full implications of the Charitable Contributions Deduction.

MEDICAL AND DENTAL EXPENSES DEDUCTION

The **Medical and Dental Expenses Deduction** is an essential tax relief mechanism, though ideally, it's one taxpayers wouldn't have to utilize. The basis of this deduction is that it offers a form of tax reprieve for individuals shouldering sizable non-reimbursed medical and dental costs that significantly impact their income. Eligible taxpayers can deduct certain medical and dental expenses that surpass a specific proportion of their Adjusted Gross Income (AGI). These expenses can encompass payments for the diagnosis, treatment, mitigation, curing, or prevention of disease, as well as expenses for treatments affecting any part or function of the body. However, the IRS has stringent guidelines on what exactly qualifies for deduction. Consequently, it's always advisable to consult with a tax professional or thoroughly review IRS guidelines to fully grasp the implications and workings of the Medical and Dental Expenses Deduction.

STUDENT LOAN INTEREST DEDUCTION

The **Student Loan Interest Deduction** is a federal income tax deduction that allows you to subtract up to \$2,500 of the interest you paid on a qualified student loan during the tax year from your taxable income. It is designed to help students and parents, who are still paying off student loans, reduce their tax liabilities. This deduction is claimed as an adjustment to income, which means you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040. To qualify, the student loan must have been taken out solely to pay for qualified education expenses, and the loan cannot be from a related person or made under a qualified employer plan. Furthermore, the student must be you, your spouse, or your dependent, and must have been enrolled at least half-time in a degree program when the loan was taken out. The amount of your Student Loan Interest Deduction is gradually reduced (phased out) if your Modified Adjusted Gross Income (MAGI) is between \$70,000 and \$85,000 (\$140,000 and \$170,000 if you file a joint return). You're not eligible to claim the deduction if your MAGI is \$85,000 or more (\$170,000 or more if you file a joint return). As always, it's recommended to consult with a tax professional or review IRS guidelines to fully understand the implications and workings of the Student Loan Interest Deduction.

SELF-EMPLOYMENT EXPENSES DEDUCTION

The **Self-Employment Expenses Deduction** is a vital tax-saving tool for freelancers, independent contractors, and other self-employed individuals. This deduction allows you to subtract certain business-related expenses from your gross self-employment income, reducing your overall taxable income and, in turn, your tax liability. Qualifying expenses can be wide-ranging, encompassing costs such as home office expenses, business-related mileage, advertising costs, and even certain business-related meals or entertainment. It's important to maintain meticulous records of all such expenses and to be prepared to justify them as necessary if queried by the IRS. Also, remember that only expenses deemed 'ordinary and necessary' in the course of your business operations are eligible for this deduction. As is the case with all tax deductions, it's highly recommended to consult with a tax professional or review IRS guidelines to fully understand the stipulations and potential benefits of the Self-Employment Expenses Deduction.

IRA CONTRIBUTIONS DEDUCTION

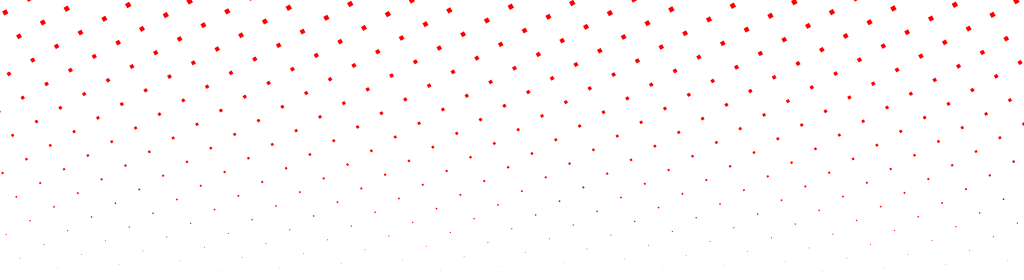
The **IRA Contributions Deduction** provides substantial tax benefits to individuals saving for retirement through an Individual Retirement Account (IRA). This tax deduction allows you to subtract the amount you contribute to your IRA from your taxable income, which can potentially lower your tax bill. Contributions to a traditional IRA are often tax-deductible, with the exact amount depending on your income, filing status, whether you are covered by a retirement plan at work, and other factors. The IRS sets annual contribution limits, which for 2022 is \$6,000, or \$7,000 for those aged 50 and over. It's crucial to note that tax deductions for IRA contributions are only available to those who do not participate in a workplace retirement plan, or if they do, their income must fall below certain thresholds. Also, contributions to Roth IRAs are not tax-deductible, as they are made with post-tax dollars, but qualifying withdrawals in retirement are tax-free. Consultation with a tax professional or a thorough review of IRS guidelines is highly recommended to fully comprehend the benefits and constraints of the IRA Contributions Deduction.

OUTRO

In conclusion, navigating the landscape of tax deductions and credits can seem like a daunting task, but with a solid understanding of the various options available, it becomes considerably less intimidating. Whether it's the Charitable Contributions Deduction, the Medical and Dental Expenses Deduction, the Student Loan Interest Deduction, the Self-Employment Expenses Deduction, or the IRA Contributions Deduction, being well-informed enables you to take full advantage of these tax relief mechanisms. They are designed with the intent to alleviate financial burdens and incentivize positive economic behaviors. While this guide provides an overview, the complexity of tax laws and individual financial situations necessitate a thorough review of the IRS guidelines or consultation with a tax professional. With the right knowledge and assistance, you can seamlessly integrate these tax-saving strategies into your financial planning, maximizing your financial health and future security. Remember, the key to maximizing your deductions and credits is being proactive, informed, and strategic.



**FINAL
THOUGHTS**



Q: CAN I STILL CLAIM THE STUDENT LOAN INTEREST DEDUCTION IF MY PARENTS ARE PAYING BACK THE LOAN?

Yes, if you are legally obligated to pay back the loan and your parents are merely making the payments on your behalf, you can claim the student loan interest deduction.

Q: CAN I CLAIM AN EDUCATION CREDIT IF I RECEIVE A SCHOLARSHIP?

Yes, but you can't include expenses paid by a tax-free scholarship, grant, or employer-provided educational assistance in the calculation for the education credits. You need to subtract any tax-free awards from your total qualified educational expenses to determine your eligible expenses for the credit.

Q: WHAT KINDS OF EXPENSES CAN I DEDUCT WITH THE SELF-EMPLOYMENT EXPENSES DEDUCTION?

You can deduct any "ordinary and necessary" expenses related to your business. This includes but is not limited to, home office expenses, travel expenses, advertising costs, and costs for products or raw materials.

Q: WHAT EXPENSES ARE COVERED UNDER THE CHILD AND DEPENDENT CARE CREDIT?

The Child and Dependent Care Credit covers a percentage of the cost of care, including daycare, after-school programs, day camps, and certain types of household costs for qualifying individuals. However, overnight camps, schooling for children in kindergarten or higher, or care provided by a spouse or dependent do not qualify.

Q: WHAT IS THE DEADLINE FOR MAKING CONTRIBUTIONS TO AN IRA?

The deadline to make contributions to your IRA for the current tax year is typically the due date of your individual income tax return, which is usually April 15th of the following year, excluding extensions.



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