The Eagle's Eye April 2020 Issue 8

Tax Tips from a Tax Attorney

by Kenneth S. B. Spears, Esq.

It's that time again where our collective attention turns toward filing our federal income taxes. Even though in recent days, our tax obligations have played second fiddle to the coronavirus pandemic, as of yet the government hasn't suspended the payment of taxes or most importantly, refunds. Before getting into some tax tips; let me give the standard legal disclaimer, "This does not qualify as legal advice, and I am not your attorney or your CPA." Be sure to talk with your CPA, H&R Block associate, or local tax preparer, and verify if you qualify for some of these tax benefits.

My role as a tax attorney is more for tax planning than compliance, so these tips, while generally applicable, may be more useful in planning for future tax years, especially since I know some folks have been on it and had their taxes filed since the first week of January. However, for those of us late filers; you may be able to use some of these tips before the April 15th deadline.

Tax Tip #1 – Credits & Deductions

Simply . . . you want credits. Deductions are useful, but credits are a dollar for dollar reduction of your tax liability. The difference is that deductions reduce your gross income to help you figure out your adjusted gross income which you use to figure out your tax liability (the amount you owe). Deductions reduce the amount you *earned* in a given tax year, while credits reduce the amount you *owe*. Essentially deductions help determine your tax liability, while credits reduce that liability dollar for dollar, meaning that for each dollar of credit, your liability is reduced.

For example, if you made $100,000 in income and have deductions of $20,000, it would make your adjusted gross income $80,000 and that amount would be used to determine how much you owe based off of the tax tables. So, for a married couple filing jointly, you would owe $9,323, which is your tax liability. Going further, if you have $2,000 worth of credits, this would make your tax liability $7,323, before even considering any of your withholdings or other prepaid taxes.

Credits are a very useful tool in ensuring the amount you owe is less or to increase your refund amount. This is very true given the current landscape of tax law. After the tax reform in 2017 which increased the standard deduction, it lessened the value of deductions you may have, unless you have deductions above the standard deduction. Whereas, when the standard deduction was low, it made itemizing your deductions feasible. The good thing about credits is they were not devalued by tax reform.

Tax Tip #2 – Make Paying for College Work for You

The tax code provides some relief for individuals who are currently seeking some form of higher education, and/or for those who are paying student loans from those educational pursuits. Generally, scholarships received by students are not included in the students' gross income. Which mean, that's money you do not have to calculate as part of your income for a given tax year. While there are some qualifications to this general rule; seek guidance from your tax professional.

Additionally, there are two credits available to either the taxpayer, the taxpayer's spouse, or the taxpayer's dependent for tuition paid. These credits are: the ***American Opportunity Tax Credit*** and *the* ***Lifetime Learning Tax Credit.*** The credit is based on the amount of tuition paid as reported on Form T-1098 received from your institution(s). The ***American Opportunity Tax Credit*** (formerly/known as the ***Hope Scholarship Tax Credit***) is available to a taxpayer per student in the first four years of their post-secondary education. Thus, this credit is only available to students

Tax Tips cont'd

seeking associates or bachelor degrees. After four years of use, or if the student is in graduate school, this credit is generally no longer available. However, the ***Lifetime Learning Credit*** is still available. This is available *per taxpayer* for any year of the students' post-secondary education. Only one of these credits can be used at a time and there are ***phase outs*** applicable to these credits. For example, if you make over a certain amount you may not have access to all of the credit.

Another benefit available, is the ***qualified tuition expense deduction***. This is a good alternative to the credits especially if you are phased out of receiving those benefits. You can only use one or the other, so if you use the credits, then you are not allowed to use the deduction. There are other limitations to this deduction, but talk to your tax professional for more information.

For those of us who have finished school and are entering into the student loan repayment world, there are benefits available to you for paying student loan interest. There is a ***student loan interest deduction*** and is capped at $2,500. There are phrase out points related to this deduction but see your tax professional for more information. Finally, if any portion of your student loan is forgiven; you do not have to include that portion in your gross income.

Tax Tip #3 – Business Pays

Deductions are a major key for small business owners. Business owners more than anyone else should make sure a tax professional prepare their taxes. Also, business owners must keep good, clear, and accurate records. The general rule to remember is that if something is an ***"ordinary and necessary"*** cost to running your business, or your pursuit of profit, then it is likely a tax-deductible expense. There are, however, some exceptions to this rule, but you should seek guidance from your tax professional in dealing with those expenses. The biggest deduction available to sole proprietors, partners, LLC members, shareholders of a S-Corporation, or any other type of pass through entity is the ***qualified business deduction.*** This allows you to deduct up to 20% of your business income, as long as you fall under a certain threshold amount.

Other deductions available to small business owners relate to rent, operating a home office, advertising and marketing, office supplies expenses, utilities, repairs, expense related to cars including mileage, travel, salaries, employee benefits, taxes, insurance, depreciation and other expenses. This list is not exhaustive but is a sample of the type of records you should keep as a business owner to maximize the tax benefits available to you.

A deduction still available to small business owners, although limited to some degree, are for meals. The recent tax reform limits the deduction to 50% of cost of business-related meals. There is no longer a deduction for entertainment expenses. Should you utilize the services of a CPA or attorney, their fees are also deductible.

Tax Tip #4 – Be Aware of Changes

Tax law like many fields of law id dynamic and everchanging. The 2017 tax reform overhauled the existing tax structure, while most of the changes already took place, there are other changes set for the coming years. One of those changes are alimony payments. These payments are no longer deductible and the corresponding alimony receipts can no longer be included as income. Not having health insurance, another recent change, is no longer a penalty. These are just a couple of the changes recently taken effect.

Note: *Tax credits are what big businesses look for and are the basis for many deals and joint ventures. If you would like more extensive information, need advice or assistance, please contact Kenneth at:* ***kspears21@gmail.com.***