Find Frequently Overlooked Tax Deductions

By Christopher Ford

Today's tax code is so complicated, more and more Americans are hiring professionals – from personal accountants and financial advisors to tax preparation firms – to do their yearly tax returns. And though many of us have finances that are simple enough for the EZ forms, if you have investments, own property, run your own home business, are pursuing career education, even if you have children, there are some advantages to itemizing your deductions you may not know about. Keep in mind that the code changes from year to year, and even the available deductions for one year may be different for the next tax year.

The most commonly overlooked deductions are the ones that lie in the area of home ownership. This is because there are many ways in which federal, state and local governments try to encourage and promote home ownership. These efforts make it into the tax code in the form of incentives. For example, many people are obtaining mortgages on which they are paying "points" for the benefit of a slightly lower interest rate. These "points" are actually a fee, and qualify as a deduction as part of itemized interest. In other words, if you're considering purchasing points in order to lower your interest rate, scrape together the money to do so because the fee is deductible and the lower rate will save you a bundle over the life of your loan.

Refinancing "points" are also deductible, but only over the life of the loan. In other words, take any refinancing fees and divide them by the number of years of the loan to learn your annual deduction amount.

If, like many Americans, you changed your place of residence this year in order to accept or retain a job, those expenses may also be deductible. The new job must be at least 50 miles further away from your current residence than your current job, and you must work for 39 of the next 52 weeks at the new location. This deduction is even available for self-employed people, though the working time test doubles to 78 of the next 104 weeks.

Other commonly overlooked deductions include those for prepaying property taxes and those for other fees associated with buying, selling or refinancing a home.

If you own your own business and you're finding your skills and education from the 70s and 80s are obsolete in the new century, you can start hunting for classes to upgrade those skills. You can do this secure in the knowledge that the federal government will allow you to deduct the cost of anything that will make you more "effective." This could include anything from computer training to a marketing degree to learning to sew or cook. If you have employees, you can set up a plan that will allow you to provide up to $5,000 worth of tax-free educational expenses to them. And don't forget that money you set aside for your kids in an educational IRA is also deductible – at least up to $500 per year.

Other tax deductions small business owners might overlook include your initial contributions to the business. Anything you spent to set up the business, whether it was desk chairs and computers, an accountant for hire or even costs related to researching your business plan and financial viability, is deductible. For example, if you traveled to Australia to check out the potential of setting up America's first and only kangaroo farm, that trip would in theory be tax deductible. Still, it would be wise to check with the IRS or your tax accountant before you commit any of these deductions to paper, as the tax code is a changeable thing and open to interpretation.

Other deductions you might have missed, and which should also be thoroughly researched each tax year, include the home office deduction and deductions for charitable contributions. Again, these are complicated, but if you can tie your charitable giving into something that promotes your business, your promotional expenses may be deductible. In fact, the old fashioned method of giving up to the limit to local charities and needy causes is still one of the best ways of reducing your tax burden.