5 Tax Deductions That Even Informed People Miss

Check your tax return for these items to make sure you aren't overpaying.

October 30, 2020 4 min read

Opinions expressed by *Entrepreneur* contributors are their own.

Katie sits down with Marissa, her CPA, to finalize her taxes. It's already past the deadline, so the pressure is on to get them filed promptly to avoid any more penalties. After a grueling two hours of questions and document requests, Katie feels confident that she has divulged every necessary detail of her personal and business life.

Related: 75 Items You May Be Able to Deduct from Your Taxes

Three days later, Marissa sends Katie an email with more requests! The brokerage firm didn't have basis information on a stock she transferred, the rental house she sold had disallowed losses in prior years which aren't showing up in last year's return, and the losses on her new venture are not allowed because she lacks basis. The good news is that the CPA caught these deficiencies; the bad news is this means more digging through old files.

In order to better understand your and your family's tax situation, most tax preparers and CPAs are very diligent about asking you the right questions, either over the phone or through a questionnaire. You will be asked about rental properties, buying and selling a home, home office deductions for your business, childcare expenses, etc.

However, there are some tax implications that are a bit more covert and harder to uncover through a simple questionnaire, typically relating to multi-year deductions, disallowed losses, and sales taxes.

There are many ways to mitigate this issue. The most obvious is to provide your CPA with as much information as possible, even if you don’t think it is relevant to taxes – because it just might be. To give you some better footing when talking to your CPA, here are a few concepts to consider and line items to double check:

Related: 4 Ways You Can Reduce Your Taxes Like President Trump

1. Disallowed losses in previous tax years

Little attention is paid to disallowed losses. Most people think of these as disallowed deductions, which you can never benefit from, but disallowed losses are just delayed deductions. These losses might show up on your prior-year return, but it’s important to keep track of them because when you sell real estate or a business you should be able to benefit from this deduction. Check Schedule 1 line 5 and Form 8582 line 1c.

2. State income taxes paid last year

If you owed state taxes when you filed your return last year, double check that what you paid is on your return. If you don’t itemize, check with your preparer to ensure they took this expense into account. Check Schedule A line 5a.

3. Sales taxes

If you live in a state with no income taxes (hello, Florida!) and you itemize your deductions, make sure to include the sales taxes. The IRS provides a simple calculator so you don’t even need receipts! Remember to add to this calculation the sales taxes on major purchases like a car or boat. Check Schedule A line 5b.

4. Disallowed passthrough losses

When you own a business, there are years with losses – hopefully not too many though. But more commonly, when you start a new business you rake in some losses before you see gains. While there are limitations, most business owners are ultimately liable for any losses through personal guarantees. This means you have loan basis! Unless you are not responsible to cover those losses, they should be deductible. Check Schedule 1 lines 3 to 6.

5. Stock basis

Basis is the accounting term for how much you paid for an asset. The proceeds from a sale minus the basis is your gain – what you pay tax on. Brokerage companies do a great job of providing these numbers, but occasionally they lack basis information. Check Schedule D column e.

Related: 4 Ways to Save on Taxes When Selling Property

The more complex your investments and life are, the easier it is to miss deductions. Stay diligent and double check all possible avenues to decrease your taxes. Having a good CPA is a start, but no one is perfect. And remember, just because you are getting a refund doesn’t mean you are paying the least amount; it just means you overpaid to start with. Check line 16 on page 2 of your 1040 – that is what you are paying in

tax! Then double check the return to see if you missed anything that may reduce those taxes.

loading…

https://www.entrepreneur.com/article/358115